
VA Lending Guide

Chapter 13

Cardinal originates VA guaranteed government mortgages. These guidelines are to be used in conjunction with the VA guidelines outlined in the VA Handbook, VA Circulars, Federal Register updates, and the Cardinal VA Snapshot.

Cardinal Overlays to agency guidelines are highlighted in our signature **Riptide** color, and are also listed in the corresponding [Retail](#) or [TPO](#) Product Overlay Matrix available on the HUB.

Ability to Repay

Cardinal will verify the borrower's income, employment, assets, credit, recurring expenses, and other aspects of the loan to ensure the borrower can repay the loan in accordance with VA guidelines.

Age of Documents

Credit Documents

Refer to [Chapter 2 Documentation Standards](#)

Title Report

The title report must be no older than 90 days from the note date.

Appraisal

The appraisal is valid for 180 days from the effective date of the appraisal for both new and existing construction.

Underwriting

AUS

The use of an approved AUS is mandatory for all loans with the exception of IRRRLs. The AUS findings may be followed for credit assessment and documentation as described in the recommendation results with the following AUS risk classifications:

- LPA Accept/Eligible
- DU Approval/Eligible

Any change to the loan characteristics requires the AUS to be updated.

Manual Downgrades

A manual downgrade to Refer is required whenever any of the following is present on DU Approve/LPA Accept results:

- A mortgage not reporting on the credit report that has more than 1x30 days late payment within the last 12 months
- Any significant debt or obligation that is currently 90 days or greater past due note date
- Any new obligation that was obtained since the loan application date and is more than 30 days late
- ~~● Previous mortgage foreclosure or Chapter 7 bankruptcy discharged within two (2) years of the application date~~
- Failure to meet specific conditions of the AUS Approve/Accept findings
- Note: Loans with more than two veteran borrowers cannot be supported by DU and will require a manual downgrade

The Cardinal underwriter is required to:

- Comment on the creditworthiness assessment on the VA Loan Analysis Form 26-6393 IRRRL
- Underwrite the loan file in accordance to VA's manual underwriting guidelines as described in the VA Lender's Handbook and all applicable VA circulars

Manual Underwriting

The Cardinal underwriter is required to comment on the creditworthiness assessment on the VA loan Analysis Form 26-6393 and underwrite the loan file in accordance with VA's manual underwriting guidelines as described in the VA Lender's Handbook and all applicable circulars.

Loan Analysis Review (VA Form 26-6393)

Residual Income

VA's minimum residual incomes (balance available for family support) are a guide. They should not automatically trigger approval or rejection of a loan. Instead, consider residual income in conjunction with all other credit factors. However, an inadequate residual income alone can be a basis for disapproving a loan.

If residual income is marginal, other indicators should be reviewed such as the borrower's credit history, and in particular, whether and how the borrower has previously handled similar housing expenses. A consideration of the ages of the borrower's dependents should be made in determining the adequacy of residual income.

Debt-to-Income Ratio

VA's debt-to-income ratio of total monthly debt payments (housing expense, installment debts, and other obligations listed in section D of VA Form 26-6393, Loan Analysis) to gross monthly income. It is a guide and, as an underwriting factor, it is secondary to the residual income. It should not automatically trigger approval or rejection of a loan. Instead, consider the ratio in conjunction with all other credit factors.

A ratio greater than 41 percent requires close scrutiny unless:

- The ratio is greater than 41 percent solely due to the existence of tax-free income (Put notation regarding the tax-free income in the loan file or calculate an adjusted, smaller ratio based on “grossing up” of the tax-free income), or
- Residual income exceeds the guideline by at least 20 percent

Loans with a Debt Ratio Greater than 41 Percent

Regardless of the AUS feedback, any loan with a DTI greater than 41% must include a statement justifying the reasons for approval *unless* residual income exceeds the guideline by at least 20%.

- The statement must:
 - Include the reason(s) for approving the loan, and
 - List the compensating factors justifying approval of the loan. Please refer to [VA Compensating Factors](#) for additional information.
 - The statement must also be signed by the underwriter’s supervisor.

Credit History

A poor credit history alone is a basis for disapproving a loan.

If credit history is marginal, look to other factors, such as residual income and other compensating factors, as a basis for approving the loan.

VA Compensating Factors

Compensating factors may affect the loan decision. These factors are especially important when reviewing loans which are marginal with respect to residual income or debt-to-income ratio. They cannot be used to compensate for unsatisfactory credit.

VA compensating factors should be noted by the Underwriter in the Remarks section of the VA Loan Analysis (26-6393).

Valid compensating factors should represent strengths rather than mere satisfaction of basic program requirements. For example, the fact that the borrower has sufficient assets for closing purposes, or meets the residual income guideline, is not a compensating factor.

Valid compensating factors should logically be able to compensate (to some extent) for the identified weaknesses in the loan. For example, significant liquid assets may compensate for a residual income shortfall whereas long-term employment would not.

The Product Snapshot for the specific program selected will outline the requirements for required compensating factors and residual income. Compensating factors and/or residual income is required on all loans with a debt-to-income ratio that exceeds 41%, regardless of the AUS feedback as outlined in [Loans with a Debt Ratio Greater than 41 Percent](#).

Compensating Factors Definitions

- Significant cash reserves after closing
 - Defined as two (2) months PITIA
- Excellent credit history
 - Defined as a credit score of 700+
- Conservative or minimal consumer debt
 - Defined as the borrower's housing payment is the only open account with an outstanding balance that is not paid off monthly, the credit report shows established credit lines in the borrower's name open for at least six months, and the borrower can document that these accounts have been paid off in full monthly for at least the past six months.
- Long-term employment
 - Defined as minimum of two (2) years on the same job
- Sizable down payment
 - Defined as 10% down payment
- The existence of equity in refinancing loans
 - Defined as LTV of 90% or less
- Little or no increase in shelter expense

- Defined as the new total monthly mortgage payment does not exceed the current total monthly housing payment by more than \$100 or 5%, whichever is less
- Military benefits
 - Defined as income type is military and non-taxable indicator is set
- Satisfactory homeownership experience
 - Defined as Veteran is not a first-time homebuyer and no derogatory housing payment history or foreclosure, short sale or deed-in-lieu is present

Comparing Previous and Proposed Shelter Expenses

The underwriter should closely scrutinize a case in which the borrower will be paying significantly higher shelter expenses than he or she currently pays; this includes cases where the borrower is living rent-free.

The underwriter must consider:

- The ability of the borrower to accumulate liquid assets, and
- The amount of debts incurred while paying a less amount for shelter

If a borrower's application shows little or no reserves and excessive obligations, it may not be reasonable to conclude that a substantial increase in shelter expenses can be absorbed. Underwriter comments should be provided on the VA Form 26-6393 Loan Analysis.

Refer to the [Payment Shock](#) section below for additional guidance.

Payment Shock

Although VA does not provide specific requirements surrounding payment shock, an increase in the borrower's housing expense should be considered when assessing the overall risk of the loan. To support the borrower's ability to manage an increase in housing, the underwriter must notate the VA Loan Analysis with any liquid assets the borrower may have, any residual income, a description of the amount of debts incurred while paying a less amount for shelter, and any compensating factors.

Payment Shock Calculation

Payment shock is expressed as a percentage, determined by dividing the proposed housing expense by the present housing payment.

Example:

- Proposed Housing Payment = \$1,400
- Present Housing Payment = \$950
- $\$1400/\$950 = 1.46$
- $1.47 - 1.00 = .47$
- $.47 \times 100 = 47$ (47% increase)

Example:

- Proposed Housing Payment = \$1,400
- Present Housing Payment = \$650
- $\$1,400/\$650 = 2.15$
- $2.15 - 1.00 = 1.15$
- $1.15 \times 100 = 115$ (115% increase)

It is not necessary to calculate payment shock when the borrower's proposed housing payment is less than their present housing payment.

Payment Shock cannot be used as a compensating factor if the borrower's current housing arrangement is rent-free.

Residual Income Guidance

VA provides guidance to ensure the borrower has an adequate amount of residual income sufficient to pay for food, clothing, transportation, medical expenses, entertainment, and other day-to-day living expenses, after all monthly debts and taxes are paid.

Residual income guidance varies according to the loan size, family size, and region of the country for the property location. Cardinal calculates family size based on the dependents listed on the 1003, and tax returns provided. Paystubs will not be considered in determining dependents.

Cardinal reserves the right to request additional information to document family size to effectively calculate residual income for qualifying.

Residual Income Guide by Region					
	Family Size	Northeast	Midwest	South	West
Loan Amounts < \$80,000	1	\$390	\$382	\$382	\$425
	2	\$654	\$641	\$641	\$713
	3	\$788	\$772	\$722	\$859
	4	\$888	\$868	\$868	\$967
	5	\$921	\$902	\$902	\$1,004
	More than 5	Add \$75 for each family member up to a total of 7			

Minimal Residual Income by Region					
	Family Size	Northeast	Midwest	South	West
Loan Amounts > \$80,000	1	\$450	\$441	\$441	\$491
	2	\$755	\$738	\$738	\$823
	3	\$909	\$889	\$889	\$990
	4	\$1,025	\$1,003	\$1,003	\$1,117

	5	\$1,062	\$1,039	\$1,039	\$1,158
	More than 5	Add \$80 for each family member up to a total of 7			

Geographic Regions	
North East	Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont
Midwest	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin
South	Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, Texas, Virginia, West Virginia
West	Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming

The residual income figures can be reduced by 5% if the active duty borrower or a retired borrower will continue to have access to nearby military-based facilities.

Household Size

If a non-qualifying spouse elects to provide employment documentation (e.g. paystub and W-2s), the underwriter may consider removing the spouse from the residual requirement (reduce the number of family members by one).

Additionally, if the non-qualifying spouse receives child support for children living with them, the child support may be used to offset the children in the residual income calculation provided adequate documentation is obtained such as a: court order, with proof of consistent receipt and verification of continuance. The underwriter must document the exception in the remarks section of the loan analysis.

Social Security Payroll Tax Deferral

Deferred 2020 Social Security Taxes for certain government employees are now due per The Consolidated Appropriations Act, 2021. The period for collection of the deferred taxes is from January 1, 2021 through December 31, 2021.

Beginning January 2021, the standard 6.2% Social Security tax withholdings will be deducted from pay for military members and civilians, and an additional deduction for the deferred 2020 Social Security tax collection will be taken.

Any additional amount shown on a borrower's LES for the repayment of the deferred taxes should not be considered as an additional liability or included in the residual income calculation.

Maintenance and Utility Costs

Calculate maintenance and utility costs using 14 cents per square foot for the gross living area as per the appraisal.

Example: A 1,500 square foot home with a 1,500 square foot unfinished basement would have a combined maintenance and utility cost of \$210 (1,500 x .14).

Required Disclosures

VA Escape Clause

The VA Escape Clause must be contained in the sales contract for all VA-guaranteed loans. In the event the clause is not in the sales contract, a separate Escape Clause disclosure is required.

The clause is intended to ensure that prospective homebuyers with VA guaranteed loans receive important information in a timely manner about the house to be purchased. If buyers have not received information about the appraised value of the home they intend to buy, the buyers are not obligated to buy the home. The borrower (buyer) and seller must execute this document and it is not specific to the sales price, so if the sales price changes after the execution of the purchase contract or escape clause document, a new version is not required.

If the sales contract was signed by the veteran prior to receipt of the Notice of Value, the contract must include, or be amended to include the clause below.

“It is expressly agreed that, notwithstanding any other provisions of this contract, the purchaser shall not incur any penalty by forfeiture of earnest money or otherwise or be obligated to complete the purchase of the property described herein, if the contract purchase price or cost exceeds the reasonable value of the property established by the Department of Veterans Affairs. The purchaser shall, however, have the privilege and option of proceeding with the consummation of this contract without regard to the amount of the reasonable value established by the Department of Veterans Affairs. (Authority: 38 U.S.C. 501, 3703(c)(1))”

Loan Analysis Worksheet | VA 26-6393

This form is used by the underwriter to analyze the borrower(s) income, expenses, and creditworthiness, and indicate the credit decision.

Request for Determination of Reasonable Value | 26-1805

This form is used to order appraisals for the purchase of VA REO transactions. The form must be completed and submitted to the VA.

Counseling Checklist for Military Homebuyers | VA 26-0592

Active duty military borrowers and their lenders must sign this form to certify that the borrower has received counseling on homeownership and the loan obligation.

Compliance Inspection Report | VA 26-1839

This form is issued by the VA appraiser to report property inspection results as required by the VA Notice of Value (NOV).¹⁰

Request for Certificate of Eligibility | VA 26-1880

This is the Veteran's application for a Certificate of Eligibility (COE) and/or Restoration of Entitlement. The Veteran must submit proof of military service (DD-214) or any existing COE with the application as needed to obtain the COE.

Note; the COE does not have a defined expiration date.

Smart Document Reference 113.010 - Request for Certificate of Eligibility (VA 26-1880)

Request for Certificate of Eligibility Unmarried Surviving Spouse | VA 26-1817

Application for VA Eligibility used by an unmarried surviving spouse of a deceased Veteran (that died as a result of a service or service-connected cause).

Federal Collection Policy Notice | VA 26-0503

This form is not needed when a Uniform Residential Loan Application (URLA) and the Department of Housing and Urban Development (HUD)/VA Addendum are used as the information is incorporated in these forms. If the URLA and HUD/VA Addendum are not used on an IRRRL, Form 26-053 is required.

Debt Questionnaire | VA 26-0551

The Veteran (Borrower) completes and signs this form to provide information on prior VA loans and potential indebtedness to the Federal Government. All loan submissions must include this form.

VA Notice to Homeowner

VA Notice of Assumption of VA Guaranteed Mortgages. Veteran(Borrower) must execute notification prior to or at the time of loan closing.

Veterans Certification

The Veteran must complete and sign this disclosure; if the Veteran responds “yes” to any of the questions numbered 1 through 4, then the Verification of Benefit Related Indebtedness form must be sent to the VA regional office for completion.

Closing Forms

Report and Certification of Loan Disbursement | VA 26-1820

This form is used to report all closed home loans (both automatic and prior approval) to VA and request guaranty.

VA Notice to Homeowner

VA Notice of Assumption of VA Guaranteed Mortgages. Veteran(Borrower) must execute notification prior to or at the time of loan closing.

Nearest Living Relative Form

The Veterans Administration requires this document be completed with the name, address and phone number of the veteran’s nearest living relative. This form is required to be signed at closing.

Eligible Transactions

Purchase and Refinance Eligible Transactions

- Owner-occupied primary residences only
 - IRRRL may be a second home or investment property previously occupied by the veteran
 - If the buyer is active duty, the spouse or dependent child may certify occupancy for a veteran who is on active duty and cannot personally occupy the dwelling within a reasonable time. In the case of a dependent child, the veteran’s attorney-in-fact or legal

guardian of the dependent child must make the certification and sign VA Form 26-1820, Report and Certification of Loan Disbursement

- Single or married service members deployed from their permanent duty station are considered to be in a temporary duty status and are able to certify intent to occupy. There is no need to have a spouse certify occupancy
- Transactions with secondary financing made or held by a private entity, bank, a family member, governmental entity or non-profit that meet the parameters outlined in [Subordinate Lien](#) section.
- Two Veteran/ Split Entitlement
 - A loan involving two or more veterans who are not married to each other, and both using their entitlement; Split Entitlement can include loans to:
 - the veteran and the veteran's spouse who is also a veteran, if both entitlements will be used.
 - Effective with [Circular 26-19-13/Circular 26-19-13 Change 1](#) these transactions may now be underwritten and closed using Cardinal's automatic authority.
 - If available entitlement is uneven, a signed letter of explanation from the veterans must be provided detailing how much each veteran will use. The VA funding fee will be split evenly. Prior approval is not required.
- VA Prior Approval loans:
 - Vet/Non-Vet Joint Loans
 - A loan involving one veteran and one non-veteran (not spouse)
 - Loans made to veterans receiving VA non-service connected pension (this is not the same as VA service-connected disability compensation)
 - Joint loan to veteran and one or more veterans (not spouse) who will not be using entitlement.

A loan involving a veteran and his or her spouse will not be treated as a “joint loan” if the spouse:

- Is not a veteran, or
- Is a veteran who will not be using his or her entitlement on the loan

Note: A loan to a veteran and fiancé who intend to marry prior to loan closing and take title as veteran and spouse will be treated as a loan to a veteran and spouse (conditioned upon their marriage), and not a joint loan. A copy of the borrowers’ marriage certificate or other proof of marriage showing the marriage preceded loan closing must be retained in the loan file. A marriage license is inadequate.

Adjustable Rate Mortgage (ARM)

An Adjustable Rate Mortgage (ARM) refers to a Mortgage in which the interest rate can change annually based on an index plus a margin.

Temporary interest rate buydowns are not permitted with ARM transactions.

ARM Types

An ARM loan offers adjustable interest rates based on negotiated initial fixed interest rates coupled with periodic adjustments to the interest rate over time. The interest rate must remain constant for an initial period of 3 or 5 years, depending on the ARM program chosen by the veteran, and then may change annually for the remainder of the mortgage term.

- The initial adjustment is limited to a maximum increase, or decrease of one percentage point and the interest rate increase over the life of the loan is limited to five percentage points

Initial Interest Rate Adjustments

- The interest rate must remain constant for an initial period of 3 or 5 years, depending on the ARM program chosen
- The initial adjustment is limited to a maximum increase, or decrease of one percentage point
- Remaining adjustments may change annually for the remainder of the mortgage term

Index

The interest rate governing index will be the 1-Year Constant Maturity Treasury (CMT).

Note: GNMA does not allow ARMs using the SOFR index.

The 1-Year CMT is the weekly average yield on U.S. Treasury Securities, adjusted to a constant maturity of one year, as published by the Board of Governors of the Federal Reserve System in its statistical release on Selected Interest Rates (H.15) at <https://www.federalreserve.gov/releases/h15/default.htm>.

Margin

2.00%

Qualifying Rate

ARMs with a fixed period of 3 or 5 years may be underwritten at the initial interest rate.

Mortgage Term

The ARM must be fully amortizing over a period of no more than 30 years.

Temporary Buydown

A temporary buydown allows borrowers to reduce their effective monthly payment for a limited period of time through a temporary buydown of the interest rate.

- The effective interest rate that a borrower pays during the early years of the mortgage is reduced as a result of the deposit of a lump sum of money (sometimes called a “subsidy”) into a buydown account. A portion of the subsidy is released each month to reduce the borrower’s payments.
- The buydown funds may be provided by various parties, including the borrower, the lender, the property seller, or other interested parties to the transaction.

General Requirements for Temporary Interest Rate Buydown Plans

- Buydown program is “3-2-1”
 - Interest rate for the first year is 3% lower than the Note rate
 - Interest rate for the second year is 2% lower than the Note rate
 - Interest rate for the third year is 1% lower than the Note rate
 - Interest rate for the remaining years is the Note rate
- Buydown program is “2-1”
 - Interest rate for the first year is 2% lower than the Note rate
 - Interest rate for the second year is 1% lower than the Note rate
 - Interest rate for the remaining years is the Note rate

- Buydown program is “1-1”
 - Interest rate for the first year is 1% lower than the Note rate
 - Interest rate for the second year is 1% lower than the Note rate
 - Interest rate for the remaining years is the Note rate
- Buydown program is “1-0”
 - Interest rate for the first year is 1% lower than the Note rate
 - Interest rate for the remaining years is the Note rate
- The actual note rate and monthly payment that the borrower is obligated to pay is never actually reduced, and the full rate and payment must be reflected on the mortgage documents.
- At the end of the buydown period, the buydown funds collected at closing will have been exhausted, and the buydown period ends.
- Allowed on fixed-rate mortgages
- Purchase transaction only
- Rate increase will not exceed 1% per year
- The mortgage instruments must reflect the permanent payment terms rather than the terms of the buydown plan
- Ineligible for Manufactured Housing

Buydown Funds Provided by Seller or Interested Parties to the Transaction

- When the source of the buydown funds is provided by the seller or interested party, it is considered a Seller Concession and is limited to 4% of the lesser of sales price or appraised value

Lender-Funded Buydowns

- If the buydown is funded by the lender as part of the pricing on the loan, the buydown agreement must require that the funds in the buydown account be transferred to the new servicer if the mortgage is subsequently transferred.

Buydown Agreements

- The buydown agreement must provide that the borrower is not relieved of his/her obligation to make the mortgage payments required by the terms of the Note

- The buydown agreement may include an option for the buydown funds to be returned to the borrower or to the lender, if it funded the buydown, if the mortgage is paid off before all of the funds have been applied.

Qualifying the Borrower

- The borrower is qualified based on the Note rate without any consideration of the bought-down rate

Terms of the Buydown

- The buydown plan provides for increases of not more than 1% in the interest rate paid in each 12-month interval

Buydown Funds

- Funds for buydown accounts must be deposited into custodial bank accounts
- The buydown funds are applied toward payments as they come due under the Note
- Buydown funds are not refundable unless the mortgage is paid off before all funds have been applied
- Buydown funds cannot be used to pay past-due payments

Two-Time Construction Loan Process

These types of loans involve an initial non-VA interim construction loan that closes prior to the commencement of construction, and a second loan closing where the subject VA-guaranteed loan is used to establish permanent financing by refinancing the interim construction loan. Unlike a One Time Close (OTC) Construction Loan which combines the construction financing into the same loan as the permanent mortgage financing where there is a single closing transaction before construction begins where a single set of fees and closing costs are collected from the borrower, VA's Two-Time Construction loan involves two separate closings. .

The following provides a general guide to follow when processing a VA two-time construction loan. As VA prefers for the appraisal on a two-time construction loan to be ordered after the dwelling is 100%

complete, this general guide does not address instances where the appraisal is ordered prior to completion of the dwelling:

1. Verify the Veteran's eligibility and entitlement
2. Close the non-VA interim construction loan
3. The construction takes place
4. Order the VA appraisal after construction is complete as "New Construction"
5. Issue the NOV
6. Underwrite the loan using VA's underwriting guidelines
7. Close the loan after all NOV requirements are met
8. Pay the VA Funding Fee within 15 days of loan closing
9. Issue the Loan Guaranty Certificate

Octane

The transaction will be structured as a Refinance within Octane if the borrower has existing interim construction financing and is utilizing this program for the permanent financing of that loan.

Acquisition Costs

Acquisition costs on a two-time construction loan include the following, provided documentation is submitted to support the associated amount:

- Balance of the interim construction loan, and
- Balance owed on the land
 - If no balance is owed on the land neither the original cost nor current value may be included in the acquisition cost

Maximum Loan Amount

The maximum loan amount for construction (one-time and two-time) loans is limited to:

- The lesser of the VA reasonable value or the [Acquisition Costs](#), plus,
- The applicable VA funding fee

Funding Fee and Loan Reporting

In some instances, equity in the subject property may be considered as a downpayment for the purpose of reducing the funding fee.

1. Equity in the secured property may be used as a down payment for calculating the funding fee, or
2. In cases where the Veteran purchased the land within one year of VA loan closing, the greater of the amount paid to acquire the land, or the value of the land (if the appraiser assigned value to the land on the appraisal) may be considered as a downpayment for the purpose of calculating the funding fee, or [\(Table A\)](#)
3. In cases where the Veteran purchased the land more than one year prior to the VA loan closing, the value of the land may be considered for the purpose of calculating the funding fee if the appraiser assigns value to the land on the appraisal. If the appraiser does not assign value to the land on the appraisal, only equity in the subject property may be considered as a down payment for the purpose of calculating the funding fee, or [\(Table B\)](#)
4. In cases where the Veteran obtained the land as a gift, only equity in the subject property may be counted as a downpayment for the purpose of calculating the funding fee. [\(Table C\)](#)

Funding Fee Downpayment Examples

This section provides examples of construction loan downpayment scenarios and the appropriate amount to enter into FFPS as the Purchase Price and the Downpayment amount.

Table A Veteran purchased the land within one year of closing of the VA-loan				
Item	Description	Example 1	Example 2	Example 3
A	Cost to Acquire Land	\$100,000	\$30,000	\$100,000
B	Balance Owed on Land	\$0	\$20,000	\$60,000
C	Contract to Construct plus Permits and Reserves	\$300,000	\$300,000	\$300,000
D	Acquisition Cost (B+C)	\$300,000	\$320,000	\$360,000

E	Reasonable Value per NOV	\$350,000	\$375,000	\$500,000
F	Land Value (if given)	N/A	\$80,000	N/A
G	Max Loan Amount (Lesser of D or E)	\$300,000 + Applicable FF	\$320,000 + Applicable FF	\$360,000 + Applicable FF
H	Purchase Price in FFPS (Greater of : E., (A+C), or (C+F))	\$400,000	\$380,000	\$500,000
I	Downpayment in FFPS (H-G)	\$100,000	\$60,000	\$140,000

Table B Veteran purchased the land more than one year prior to the closing of the VA-loan				
Item	Description	Example 1	Example 2	Example 3
A	Cost to Acquire Land	N/A	N/A	N/A
B	Balance Owed on Land	\$0	\$60,000	\$0
C	Contract to Construct plus Permits and Reserves	\$300,000	\$300,000	\$300,000
D	Acquisition Cost (B+C)	\$300,000	\$360,000	\$300,000
E	Reasonable Value per NOV	\$350,000	\$350,000	\$350,000
F	Land Value (if given)	Not Given	Not Given	\$75,000
G	Max Loan Amount (Lesser of D or E)	\$300,000 + Applicable FF	\$350,000 + Applicable FF	\$300,000 + Applicable FF
H	Purchase Price in FFPS (Greater of : D, E, or (C+F))	\$350,000	\$360,000	\$375,000
I	Downpayment in FFPS (H-G)	\$50,000	\$10,000	\$75,000

Table C Land was gifted or inherited by the Veteran free of encumbrance				
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Item	Description	Example 1	Example 2
A	Cost to Acquire Land	N/A	N/A
B	Balance Owed on Land	\$0	\$0
C	Contract to Construct plus Permits and Reserves	\$300,000	\$300,000
D	Acquisition Cost (B+C)	\$300,000	\$300,000
E	Reasonable Value per NOV	\$350,000	\$290,000
F	Land Value (if given)	Not Given	Not Given
G	Max Loan Amount (Lesser of D or E)	\$300,000 + Applicable FF	\$290,000 + Applicable FF
H	Purchase Price in FFPS (Greater of D or E)	\$350,000	\$300,000
I	Downpayment in FFPS (H-G)	\$50,000	\$10,000

Property Eligibility and Appraisals

Appraisals should be ordered when the dwelling is 100% complete. The appraisal should be ordered as a purchase, specifying the building status as “New Construction”.

While VA prefers for the appraisal to be ordered after the dwelling is 100% complete, if the appraisal is being ordered prior to completion, the appraisal will need to be ordered as a purchase, specifying the loan use as “Construction to Permanent” and the building status as “Proposed.”

Construction exhibits, permitting, and materials specifications, should be provided to the appraiser at the time of the appraisal order to be utilized in the preparation of the appraisal report for valuation purposes. Appraisers will hold appraisal assignments until the appropriate exhibits are received.

Construction Loan Comparison

Loan Feature	One-Time Close	Two-Time Close
Appraisal Timing	Prior to Commencement of	Preferred: After Dwelling is 100%

	Construction	Complete
Purchase or Refinance for VA Purposes	Purchase	Purchase
Appraisal Type	Proposed – Per Plans and Specs	Preferred: Built Less than One Year and Never Occupied
Maximum Loan Amount	Lesser of: a. Acquisition Cost, or b. VA Reasonable Value Plus, the applicable VA Funding Fee	Lesser of: a. Acquisition Cost, or b. VA Reasonable Value Plus, the applicable VA Funding Fee
Cash to Veteran Acceptable?	No	No
Can Equity be Considered for VA Funding Fee Rate Reduction?	Yes	Yes
Does VA's Net Tangible Benefit (NTB) apply?	No	No

Ineligible Transactions

- Escrow waivers are not permitted
- Life Estates
- Blind Trusts
- Irrevocable Trusts
- LLCs, Corporations, and Partnerships
- Community Land Trusts
- Energy Efficient Mortgages (EEMs)
- Supplemental loans
- Transactions resulting in less than 25% guaranty

- Unsecured loans or loans secured by less than a first lien
- Loans made to veterans rated incompetent by the Department of Veterans Affairs
- VA IRRRLs currently delinquent at the time of closing
- Texas Section 50(a)(6) loans
- VA regulations require that every VA loan be secured by a first lien on the property, properties owned free and clear are not eligible for refinancing.

Cash to Veteran Generally Not an Eligible Loan Purpose

Cash to the Veteran from loan proceeds is permissible only for certain types of refinancing loans and under very limited circumstances, as follows:

- For [IRRRLs](#) and [Cash-out Refinance Loans](#), refer to the appropriate sections within this document.
- For other types of refinancing loans and all purchase/acquisition loans, the Veteran generally cannot receive cash from loan proceeds. The only exceptions are:
 - The refund of items for which the Veteran paid cash, which were subsequently included in the loan amount.
 - Amounts credited for prorated taxes paid in arrears

Principal Curtailment Policy

A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the mortgage loan. There are circumstances that arise during the loan process that cause excessive cash back to the borrower or that affect the maximum loan amount calculation for certain programs. The most common circumstances are an excess of seller and/or lender credits and borrowers receiving excess cash back than is permitted for a limited / rate term refinance.

Premium Pricing

- Premium pricing refers to situations when a borrower selects a higher interest rate on a loan in exchange for a lender credit. The lender credit cannot be used to fund any portion of the

borrower's down payment, and should not exceed the amount needed to offset the borrower's closing costs.

- Any excess lender credit required to be returned to the borrower in accordance with applicable regulatory requirements is considered an overpayment of fees and charges, and may be applied as a principal curtailment or returned in cash to the borrower.

In these situations, and under certain circumstances, a principal reduction may be allowed to cure the specific issue. Principal Curtailments are also known as Principal Reductions for the purpose of this policy.

- VA:
 - Subject to a maximum principal reduction of 1% of the loan amount, excluding any allowable cash-back to the borrower per VA guidelines

For curtailments made at the time of closing, the amount must be clearly documented on closing disclosure.

VA Prior Approval

Effective February 13, 2017, prior approval loans will be submitted electronically through the WebLGY system. The SAR will be responsible for submitting the loan for prior approval for the following loans to the Department of Veteran Affairs; refer to the [VA Prior Approval Loan Submission Procedure](#).

Veteran / Non-Veteran Joint Loan

"Joint loan" generally refers to a loan for which a veteran and another person(s) are liable, and the veteran and the other obligor(s) own the security.

VA Joint Loans

- A loan involving one veteran and one or more non-veteran (not spouse), or
- A veteran and one or more veterans (other than the spouse) who will or will not be using their entitlement

A loan involving a veteran and his or her spouse will not be treated as a “joint loan” if the spouse:

- Is not a veteran, or
- Is a veteran who will not be using his or her entitlement on the loan

Note: A loan to a veteran and fiancé who intend to marry prior to loan closing and take title as veteran and spouse will be treated as a loan to a veteran and spouse (conditioned upon their marriage), and not a joint loan. A copy of the borrowers’ marriage certificate or other proof of marriage showing the marriage preceded loan closing must be retained in the loan file. A marriage license is inadequate.

The following requirements must be met:

- Veteran using entitlement must occupy,
- Non-veteran not required to occupy,
- Veteran’s income must be sufficient to cover their portion of the loan,
- VA will only guarantee the veteran’s portion of the loan

VA Prior Approval Loans

- Vet/Non-Vet Joint Loans
 - A loan involving one veteran and one non-veteran (not spouse)
- Loans made to veterans receiving VA non-service connected pension (this is not the same as VA service-connected disability compensation)
- Joint loan to veteran and one or more veterans (not spouse) who will not be using entitlement

Two Veteran/ Split Entitlement

- A loan involving two or more veterans who are not married to each other, and both using their entitlement.

- Effective with Circular [Circular 26-19-13/Circular 26-19-13 Change 1](#), these transactions may now be underwritten and closed using Cardinal's automatic authority.
- If available entitlement is uneven, a signed letter of explanation from the veterans must be provided detailing how much each veteran will use. The VA funding fee will be split evenly. Prior approval is not required.

VA Nonservice Connected Pension

Nonservice connected (disability) pension is a needs-based program for veterans with war-time service who are permanently and totally disabled, or over 65. Nonservice Connected Pension is also known as VA pension or widower's pension.

VA disability income verification will be placed on the COE. However, there are some instances where this income is not placed on the COE which may include if the Veteran:

- Will be discharging within the next 6 months from the military and has completed a Physical Exam Board (PEB) or Medical Review Board (MEB) and will be filing for VA disability while still on active duty, or
- Has recently filed for VA disability and VA's Compensation Service has not yet made a determination and would be entitled to receive VA disability benefits, or
- Would be entitled to receive VA disability benefits, but for the receipt of retired pay, or
- Has received VA disability benefits in the past, or
- Is an unmarried surviving spouse of a Veteran who is eligible for or receiving qualifying Disability and Indemnity Compensation (DIC), or
- Is in receipt of a VA nonservice connected pension

If the Veteran falls under one of the above categories, perform the following:

- Submit by fax VA Form 26-8937, Verification of VA Benefits, to the VA Regional Loan Center (RLC) where the subject property is located. VA will complete and return the form to the lender by return fax.
- Provide any supporting documents, including the COE, if it states to send VA Form 26- 8937, Verification of Benefits to VA, to verify a Veteran's monthly income from VA.

Please note that if VA's Compensation Service has not yet issued a memo rating and/or completed a claim for a Veteran, then the amount the Veteran may receive in the future cannot be determined until the claim has been completed.

Until the Veteran begins receiving the monthly award, the amount cannot be placed on the COE. A VA awards letter can be used to verify the amount and date a future monthly VA compensation award will begin. However, the COE may be updated to reflect if the Veteran is exempt from paying the VA funding fee on a future disability award.

The loan cannot be submitted for prior approval, or approved under the automatic procedure, until the lender obtains the completed form from VA when the Veteran or surviving spouse is under one of the above categories. The lender must maintain the completed form with the loan package.

If the form indicates that the borrower receives a non service-connected pension, the loan cannot be closed automatically. The loan must be uploaded in WebLGY for prior approval.

VA's Pension Service may also have to review and/or approve the application in addition to Loan Production. The VA RLC will coordinate with the Pension Service upon receipt of the underwriting package.

Timeframes

- 10 business days to review file from the date received electronically in WebLGY
- All communication will be with the underwriter only
- If additional documentation is required, VA will suspend the loan and request additional information. Another 10 business days is allotted from the date of receipt of the new information.

Appraisal

General Information

The specifics in this section are in addition to Cardinal's standard Property and Appraisal requirements. If there is a conflict between the two policies, the most restrictive applies.

All VA Appraisals must reflect the "Any Qualified Veteran" in the borrower field as per VA Guidelines.

The Certificate of Eligibility (COE) must be ordered prior to requesting an appraisal. On a case-by-case basis, Loan Guaranty Service, or the VA Regional Loan Center of jurisdiction can authorize a waiver to allow appraisals to be requested through the appraisal WebLGY system. Any inquiries for an exception should be sent to colenders@va.gov.

Effective January 1, 2020, the Department of Veterans Affairs began permitting VA fee panel appraisers to rely on information provided by another person when making an appraisal for VA loans. Under the new Assisted Appraisal Processing Program (AAPP), Cardinal Financial will now permit the use of a third party inspector under the supervision of a VA fee panel appraiser.

- The VA fee panel appraiser who participates in AAPP remains fully responsible for the appraisal report and must:
 - Communicate with appropriate parties prior to another individual conducting the site visit
 - Maintain a written legal agreement with any individual providing information to the appraiser
 - Maintain an Errors & Omissions insurance policy
 - Verify the ethical and moral character of any individual providing information to the appraiser

- When placing the VA Appraisal order, the following question will be asked:

1E. Can Assisted Appraisal Processing Program (AAPP) ▼ be utilized on this appraisal assignment? **Indicate if Assisted Appraisal Processing Program (AAPP) can be utilized for this assignment.**

- Since Cardinal is participating with this program, the answer is YES.

Form Requirements

Form Number	Property Type
Form 1004	1-unit single family property. The appraisal report must include: <ul style="list-style-type: none"> • Interior photos of the kitchen • All bathrooms • Main living area • Examples of physical deterioration, if present • Examples of recent updates such as restoration, remodeling and renovations, if present • Clear, original photos of the front and rear with different views of the subject sides in each photo, subject street views and front view of each comparable • Appraiser to comment if photos from the multiple listing service are used (e.g. gated community) • Include photos of any improvement, site feature or view that would affect the final market value
Form 1004C	Manufactured Housing
Form 1073	Attached/Detached Condominiums
Form 1025	2-4 Unit Properties
Form 2055	Permitted when: <ul style="list-style-type: none"> • Transaction type is a Purchase (not eligible for Refinance); • Purchase price does not exceed the current calendar year conforming loan limit for the property jurisdiction; • Subject is a single family (1-unit) home that is not a manufactured home or condominium, not located on a leasehold estate, and not undergoing renovation; • One or both of the following apply: <ul style="list-style-type: none"> ○ The Veteran is making a down payment of at least 20 percent of the purchase price; OR

	<ul style="list-style-type: none"> ○ More than 7 business days have elapsed since the lender requested an appraisal and the case remains unassigned in VA's system
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1004D Repair / Completion Inspection

Cardinal Financial strives to streamline our settlement process to assure timely closing and funding of our loan transaction. To achieve that, we strongly urge that any repair or completion inspection be provided to the underwriter as a PTA condition prior to “clear to close”.

In instances where timing precludes obtaining the inspection prior to closing, the underwriter can move the 1004D for new construction and existing properties to Prior To Funding. The following steps should be followed to accomplish moving the document from Prior To Approval to Prior To Funding:

- If a 1004D was provided Prior To Approval but it is not a clear inspection with all work completed, the underwriter will Approve the 1004D document. Proceed to the Transaction screen > Tags and affix uw_need_appraisal_1004D_PTF, then press Force Update.
- If a 1004D is not provided Prior To Approval, the underwriter will insert EXCLUDE with a reason that the document is moving to Prior To Funding and Save. This will waive the document PTA. Proceed to the Transaction screen > Tags and affix uw_need_appraisal_1004D_PTF, then press Force Update.
- Since the loan will not be funded without the underwriter reviewing the 1004D, there is no additional escalation or approval needed in order for the underwriter to move this document to PTF.

Lender and Borrower Completion Certification

When issuing the NOV for existing or newly constructed properties, SARs may condition the NOV for a Lender Certification of repairs, instead of an appraiser certification. The Veteran cannot certify repairs, (this must be completed by the lender), however, the Veteran can provide photos and receipts of work done as proof of completion.

Note: Repair certifications which may involve lead-based paint must be completed by the fee appraiser.

Examples of instances when the Lender and Borrower Completion Certification (available in Octane) in lieu of a 1004D is permissible are provided below, refer to the appropriate section for guidance:

- When certifying [Carbon Monoxide and Smoke Detector Standards](#) have been met
- When certifying [Residential Water Heater Strapping](#) standards have been met
- [Disaster Re-Inspections](#)
- Certification of roof coating on a Manufactured Home
- Under certain conditions related to [Construction Inspections and Warranty](#)

Re-use of the Appraisal on Subsequent Transactions

A 12-digit VA Loan Identification Number (LIN), also referred to as the VA Case ID, is assigned to each loan by VA at the time the appraisal is requested. The LIN is specific to the transaction and therefore, the appraisal may not be re-used for subsequent transactions.

Transferred Appraisals

- VA appraisals are tied to the VA case number which was assigned when the appraisal was ordered by another LAPP Lender and must follow VA appraisal portability requirements.
- The VA case number must be reassigned to Cardinal. The Notice of Value is not transferable and must be reissued by a Cardinal SAR underwriter within five (5) business days of Cardinal's receipt of the re-assigned VA appraisal.
- Second appraisals are not allowed by VA and may not be charged to the Veteran.
- The transferred appraisal must be in the name of our Veteran.

For guidance on Appraisal Conversions, refer to [Chapter 2 Documentation Standards](#).

Market Data

Market Data Submitted During the Appraisal Process

During the appraisal process, fee appraisers are required to notify the requester before completing the appraisal when it appears that the estimated market value will be below the sales price. The appraiser will allow 2-business days for the requester, or any parties to the transaction contacted by the requester, to submit any additional sales data that they wish to have considered. This process is known as the “Tidewater Procedure” as VA first piloted this procedure in the Tidewater area of Virginia.

Comparable Sales Data

For each potential comparable sale submitted, the following information should be provided:

- Street address,
- Sales price,
- Date of sale, Gross living area,
- If the property was listed, a copy of the listing with details about the property, and any other information to assist the appraiser in determining whether the sale could be used as a comparable property. It is the responsibility of the requester to provide sufficient information for the appraiser to analyze.

Notation in the Appraisal

If market data is submitted, the appraiser will note in the appraisal that this procedure was followed and include the following information:

- Street address of each sale submitted,
- Whether or not each sale was considered and, if not, the reason, and
- The effect of the data, if any, on the opinion of value.

No Data Submitted

If no market data is submitted, after 2-business days, the appraiser will note in the appraisal that the Tidewater Procedure was followed and complete the appraisal report.

Process is for Sharing Market Data Only

This process is in no way to be considered as instruction to the appraiser to meet any preset value.

Sales Comparison Approach

The appraiser must include, at a minimum, three closed sales which the appraiser believes are the best available sales and provide comments to support the selection, when appropriate. Comparable sales should be selected based on similar locational and physical characteristics, not sales price. Recent sales in the same established subdivision, condominium or PUD are typically the best indicators of value. The sales should be similar to the subject property to the extent that the sales would be competing properties if they were on the market at the same time as the subject property.

Comments Explaining Adjustments

The appraiser should provide comments when adjustments are made for points of comparison that are not self-explanatory, or when large adjustments are made. Providing detailed commentary about the market and comparable selection may reduce the number of requests for revisions of appraisals.

Limited Sales Data

If the sales data from the market area is limited, the appraiser must provide the best information available and comments with the appraiser's professional opinion about the market, any reasons for the lack of sales data, and the various differences between the subject and the comparable sales.

Distance of Comparable Sales

VA does not set minimum or maximum distance requirements between the subject and comparable sale properties. In suburban or rural communities, the market areas may be greatly expanded and suitable comparable sales may be many miles away from the subject. In such cases, the appraiser should specify why those comparable sales were used and how they compare with the subject.

Sales of REO Properties

The appraiser may use sales of Real Estate Owned (REO) properties or short sales if transactions of this nature are prevalent in the market. A transaction involving a foreclosure transfer to a mortgage servicer is not evidence of market value and must not be considered as a comparable sale.

Sales From Competing Developments

If the property is in a new subdivision or condominium, the appraiser should include, if available for comparison, properties constructed by a competing builder in the subject market area as well as properties within the subject subdivision or condominium.

Market-derived Adjustments

All adjustments on the market data grid should be market-derived, based on the amount the appraiser estimates a typical buyer would pay for the item in the market. Adjustments reflect contributory value in the market, which does not necessarily equal the cost of an item.

Sales Concessions

Sales concessions typically include financing incentives or non-realty items. As all adjustments must be market-derived, the adjustment should reflect the difference between the sales price with the sales concessions, and what the property would have sold for without the concessions under typical market conditions. The sales concessions on the comparable properties are adjusted to typical market expectations, not to the specific terms or conditions of the sale of the subject. Any concession adjustments must be downward adjustments as positive adjustments for sales concessions are not acceptable.

Recent Sales

Comparable sales should reflect the most recent activity in the market. Comparable sales are preferably sales that have taken place within the last 6 months, and generally sales that are not more than 12-months old, unless explained by the appraiser.

Time Adjustments

Market condition (time) adjustments are made to reflect value changes in the market between the date of the contract for the comparable sale and the effective date of the appraisal. The appraiser must provide comments about current market trends to support any time adjustments.

In an increasing market, positive market condition adjustments should be made if there is evidence, based on a thorough analysis of specific market trends, of increasing prices, a shortage of homes for sale, or decreasing marketing times.

In a declining market, negative market condition adjustments should be made if there is evidence of a decline in prices, an oversupply, or extended marketing times.

Condition Adjustments

Since VA appraisals must be prepared “subject to” the completion of any repairs needed in order for the property to meet VA’s MPRs, the condition for the subject property compared with the comparable sales on the market data grid should reflect the condition with the repair items completed.

Cost Approach

The cost approach is not required for VA purposes, but may be completed to supplement the indicated value in the [Sales Comparison Approach](#).

If the cost approach is provided, the appraiser must estimate the site value through sales comparison, allocation, or extraction. If the cost approach is not completed, a site value must not be provided.

Income Approach

If appraising a residential income property with two to four units, the appraiser must prepare the appraisal on the [Freddie Mac Form 72/ Fannie Mae Form 1025](#), Small Residential Income Property Appraisal Report, which includes an income approach.

VA does not require an income approach on any other property types.

Resale Restrictions

Restrictions on the purchase or resale of the property are unacceptable to VA, with certain exceptions.

The lender must:

- Ensure any restrictions fall within the exceptions provided by VA regulations at [38 C.F.R. 36.4308](#) and [38 C.F.R. 36.4354](#);
- Consult VA where doubt exists;
- Obtain VA approval where required; and
- Fully inform the Veteran and obtain his or her consent to the restriction(s) in writing at the time of loan application

Age Restricted Properties

In addition to the above listed Resale Restrictions requirements,

- The appraisal must reflect the impact that the restrictions have on the property's value and marketability, and
- The appraisal must be supported by comparables with similar restrictions

Carbon Monoxide and Smoke Detector Standards

Cardinal Financial will rely on the information provided in the residential appraisal report completed by a state-licensed appraiser regarding compliance with any applicable city, county, state, or other local jurisdiction laws or requirements. If a compliance issue regarding missing or nonfunctional carbon monoxide detectors or smoke detectors is indicated by the appraiser, the following requirements must be met depending on the status of the appraisal. If the Appraiser does not indicate that these items are not installed but completes the appraisal as meeting minimum property standards, we will assume that the items required to comply with state or local laws are in place.

Massachusetts State Requirement

Massachusetts state law requires evidence of a fire inspection for compliance with smoke detectors and carbon monoxide detectors be obtained prior to loan recording.

This inspection is required upon the sale or transfer of a residence and can be performed by the local fire department. The inspection verifies that the detectors are installed and functioning properly, according to state regulation. After a successful inspection, the fire department issues a Certificate of Compliance which is needed for loan recording.

This is applicable for purchase transactions only. Closing instructions for transactions in the state of Massachusetts will direct settlement agents to obtain the required Certificate of Compliance before the transfer of real estate and to return it with the signed closing package.

'As-Is' Property Appraisal for Newly Constructed Properties

Newly Construction Properties with an 'As-Is' property appraisal requires **one** of the following documentation options to confirm that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements:

- Written statement from the builder verifying that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements;
- Supporting photo(s) verifying that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements;
- Copy of receipt, confirming the purchase of smoke detector(s);
- Copy of receipt, confirming the payment of services for the installation of smoke detector(s);
- Appraisal Form 1004D (provided by the appraiser) confirming the smoke detector was successfully installed;
- [Lender and Borrower Completion Certification](#)

'As-Is' Property Appraisal for Existing Properties

Existing Properties with an "As-Is" property appraisal requires **one** of the following documentation options along with an executed Certification and Indemnification Agreement to confirm that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements:

- Written statement from a licensed contractor, handyman or similar vendor confirming that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements;
- Supporting photo(s) verifying that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements;
- Copy of receipt, confirming the purchase of smoke detector(s);
- Copy of receipt, confirming the payment of services for the installation of smoke detector(s);
- Appraisal Form 1004D (provided by the appraiser) confirming the smoke detector was successfully installed;
- [Lender and Borrower Completion Certification](#)

AND

- An executed Certification and Indemnification Agreement

Note: The Certification and Indemnification Agreement may be signed by the borrower, real estate agent or property seller on a purchase transaction. The Certification and Indemnification Agreement must be signed by the borrower on a refinance.

'Subject-To' Property Appraisal

- A 1004D (provided by the appraiser), or a [Lender and Borrower Completion Certification](#) must be provided to verify that the functioning detector(s) have been installed to ensure compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.

Carbon monoxide detectors should not be listed as a MPR on the appraisal report

Non-Vented Fireplace

Non-vented fireplaces such as gas and wood burning stoves present a health and safety issue and must be vented to meet VA's Minimum Property Requirements.

Residential Water Heater Strapping

If required by the state and the property has either missing or lacks sufficient strapping requirements then:

- “As-is” appraisal requires a 1004D completed by the appraiser or a [Lender and Borrower Completion Certification](#) along with supporting photo(s) to verify the water heating straps have been installed as required by the state.
- “Subject to” appraisal requires a 1004D completed by the appraiser or a [Lender and Borrower Completion Certification](#) to verify the water heater straps have been installed as required by the state

Access to Property

Each property must be provided with a safe and adequate pedestrian or vehicular access from a public or private street.

An ongoing maintenance agreement from a homeowner's association or a joint maintenance agreement from the owners of properties accessed by the private road or shared driveway is not required for properties with private roads and shared driveways. The following documentation is still required for these properties:

- A recorded permanent easement or recorded right-of-way from the property to a public road
- Item 5 of the Notice of Value will no longer be marked as required

Accessory Dwelling Unit

An Accessory Dwelling Unit (ADU) is a living unit including kitchen, sleeping, and bathroom facilities added to or created within a single-family dwelling, or detached on the same site. A manufactured home on the site could be an ADU. The dwelling and the ADU together constitute a single real estate entity.

Highest and Best Use

As part of the highest and best use analysis, the appraiser must determine if the property is a single-family dwelling with an ADU, or a two-family dwelling. The highest and best use must be a legal use. A two-family dwelling must be appraised on the Fannie Mae Form 1025, Small Residential Income Property Appraisal Report.

ADU Valued Separately

An ADU is usually subordinate in size, location, and appearance to the primary dwelling unit and may or may not have separately metered utilities and separate means of ingress and egress. The appraiser must not include the living area of the ADU in the calculation of the GLA of the primary dwelling. The ADU must be valued separately as a line item on the market data grid.

More than One Unit

The appraiser must notify the lender if a property has more than one ADU.

Detached Building

A manufactured home, shed, or other detached building on the property which does not have kitchen, sleeping, and bathroom facilities or cannot be legally used as a dwelling, may be valued as storage space if it does not present any health or safety issues.

Acreage

Acreage must be common for the area; while there is no limit on acreage, care must be taken to ensure that the appraisal addresses the acreage uses similar comparables and that the property is not income producing.

Condition Rating

Origination appraisals are prepared “subject to” any repairs needed for the property to meet MPRs, therefore UAD condition ratings of C5 and C6 are not acceptable and repairs to bring the condition rating up to a C4 or better are required. Note: the appraiser can not make an appraisal report subject to repairs that *are not* MPRs.

Per VA Pamphlet 26-7 CH 12.1(d)(f) - The appraiser will prepare origination appraisals subject to the completion of any MPR repairs that appear to be needed and include the contributory value of the completed repairs in the estimated market value. The appraiser should not recommend repairs of cosmetic items, items involving minor deferred maintenance or normal wear and tear, or items that are inconsequential in relation to the overall condition of the property. While minor repairs should not be recommended, the appraiser should consider these items in the overall condition rating when estimating the market value of the property.

Farm Residence

The property must be occupied by the veteran as the primary residence and cannot be income producing.

The VA only gives value to the home and the physical buildings attached to the land that support the residence. The valuation cannot include any income producing aspects such as livestock, crops, equipment and/or supplies. The loan cannot cover the nonresidential value of the farmland.

Inspection Requirements

The appraiser must look for and report evidence of wood destroying insect infestation, fungus growth, and dry rot, in addition to any other VA requirements. Refer to [VA Circular 26-14-8](#) for guidance on repair inspection processing procedures.

Non-Residential Improvements

Small sheds or other detached, non-residential improvements which were not given value on the appraisal report may be excluded from the inspection report.

Local Requirements

Refer to [VA Home Loans Local Requirements](#) for state and county specific Inspection Requirements.

Unless otherwise noted, wood-destroying insect information is required per Section 13-12 of the [Lender's Handbook](#). Regardless of the location of the property, an inspection is always required if the appraisal report indicates evidence of wood-destroying insect damage or an active insect infestation.

State Specific Reference Chart

State	Yes	No	Special Requirements	State	Yes	No	Special Requirements
Alabama	X			Montana		X	Required if appraiser requires it
Alaska		X	Required if appraiser requires it	Nebraska	X		Wood-destroying insect information is only required for the following counties: Adams, Boone, Buffalo, Burt, Butler, Cass, Chase, Clay, Colfax, Cuming, Custer, Dawson, Dodge, Douglas, Dundy, Fillmore, Franklin, Frontier, Furnas, Gage, Gosper, Greeley, Hall, Hamilton, Harlan, Hayes, Hitchcock, Howard, Jefferson, Johnson, Kearney, Lancaster, Madison, Merrick, Nance, Nemaha, Nuckolls, Otoe, Pawnee, Perkins, Phelps, Platte, Polk, Red Willow, Richardson, Saline, Sarpy, Saunders, Seward, Sherman, Stanton, Thayer, Thurston, Valley, Washington, Webster, and York
Arizona	X			Nevada	X		Wood-destroying insect information is only required for the following counties: Carson City, Churchill, Clark, Douglas, Esmeralda, Lincoln, Lyon, Mineral, Nye, Pershing, Storey, Washoe, and White Pine
Arkansas	X			New Hampshire		X	Required if appraiser requires it
California	X			New Jersey	X		

Colorado	X		Wood-destroying insect information is only required for the following counties: Alamosa, Arapahoe, Archuleta, Baca, Bent, Chaffee, Cheyenne, Conejos, Costilla, Crowley, Custer, Delta, Dolores, Douglas, El Paso, Elbert, Fremont, Gunnison, Hinsdale, Huerfano, Kiowa, Kit Carson, La Plata, Lake, Las Animas, Lincoln, Mineral, Montezuma, Montrose, Otero, Ouray, Park, Phillips, Prowers, Pueblo, Rio Grande, Saguache, San Juan, San Miguel, Summit, Teller, Washington, and Yuma	New Mexico	X		
Connecticut	X			New York	X		Wood-destroying insect information is required for all properties in the following New York counties: Bronx, Broome, Columbia, Delaware, Dutchess, Greene, Kings, Nassau, New York, Orange, Putnam, Queens, Richmond, Rockland, Suffolk, Sullivan, Ulster and Westchester
Delaware	X			North Carolina	X		
District of Columbia	X			North Dakota		X	Required if appraiser requires it
Florida	X			Ohio	X		
Georgia	X			Oklahoma	X		
Hawaii	X			Oregon		X	Required if appraiser requires it

Idaho		X	Required if appraiser requires it	Pennsylvania	X		Wood-destroying insect information is only required for the following counties: Adams, Allegheny, Armstrong, Beaver, Bedford, Berks, Blair, Bucks, Butler, Cambria, Cameron, Carbon, Centre, Chester, Clarion, Clearfield, Clinton, Columbia, Crawford, Cumberland, Dauphin, Delaware, Elk, Erie, Fayette, Forest, Franklin, Fulton, Greene, Huntingdon, Indiana, Jefferson, Juniata, Lackawanna, Lancaster, Lawrence, Lebanon, Lehigh, Luzerne, Lycoming, McKean, Mercer, Mifflin, Monroe, Montgomery, Montour, Northampton, Northumberland, Perry, Philadelphia, Pike, Potter, Schuylkill, Snyder, Somerset, Sullivan, Tioga, Union, Venango, Warren, Washington, Westmoreland, Wyoming, and York
Illinois	X			Rhode Island	X		
Indiana	X			South Carolina	X		

Iowa	X		<p>Wood-destroying insect information is only required for the following counties:</p> <p>Adair, Adams, Allamakee, Appanoose, Audubon, Benton, Black Hawk, Boone, Bremer, Buchanan, Butler, Calhoun, Carroll, Cass, Cedar, Chickasaw, Clarke, Clayton, Clinton, Crawford, Dallas, Davis, Decatur, Delaware, Des Moines, Dubuque, Fayette, Floyd, Franklin, Fremont, Greene, Grundy, Guthrie, Hamilton, Hardin, Harrison, Henry, Humboldt, Ida, Iowa, Jackson, Jasper, Jefferson, Johnson, Jones, Keokuk, Lee, Linn, Louisa, Lucas, Madison, Mahaska, Marion, Marshall, Mills, Monona, Monroe, Montgomery, Muscatine, Page, Polk, Pottawattamie, Poweshiek, Ringgold, Sac, Scott, Shelby, Story, Tama, Taylor, Union, Van Buren, Wapello, Warren, Washington, Wayne, Webster, Winneshiek, and Wright</p>	South Dakota		X	Required if appraiser requires it
Kansas	X			Tennessee	X		
Kentucky	X			Texas	X		
Louisiana	X			Utah	X		<p>Wood-destroying insect information is only required for the following counties:</p> <p>Beaver, Garfield, Iron, Kane, San Juan, and Washington</p>

Maine		X	Required if appraiser requires it	Vermont		X	Required if appraiser requires it
Maryland	X			Virginia	X		
Massachusetts	X			Washington		X	Required if appraiser requires it
Michigan	X		Wood-destroying insect information is required for all properties in the following Michigan counties: Allegan, Barry, Berriend, Branch, Calhoun, Cass, Hillsdale, Ionia, Jackson, Kalamazoo, Kent, Lenawee, Livingston, Macomb, Mason, Monroe, Muskegon, Oakland, Oceana, Ottawa, St. Clair, St. Joseph, VanBuren, Washtenaw and Wayne	West Virginia	X		
Minnesota		X	Required if appraiser requires it	Wisconsin	X		Wood-destroying insect information is required for all properties in the following Minnesota counties: Columbia, Crawford, Dane, Dodge, Grant, Green, Iowa, Jefferson, Kenosha, Lafayette, Milwaukee, Ozaukee, Racine, Richland, Rock, Sauk, Vernon, Walworth, Washington, and Waukesha
Mississippi	X			Wyoming		X	Required if appraiser requires it
Missouri	X						

Leased Mechanical Systems and Equipment

No Value to Leased Equipment

The appraiser must not include the value of any leased mechanical systems or any other leased equipment in the estimated market value as leased items are not suitable security for a loan. This includes, but is not limited to, fuel or propane storage tanks, solar or wind systems (including power purchase agreements), and other alternative energy equipment.

Leasehold Estate

A leasehold estate, or any other property involving less than fee simple ownership (cooperatives, ground rental arrangements, etc.) is eligible, but must be approved by VA before a NOV is issued. VA's legal staff will review the leasehold documents and the RLC will notify the requester of the results of the review. Copies of the following documents must be sent to the RLC in order for the leasehold to be reviewed for acceptability:

- Lease identifying the property to be leased, the lessor, the lease term, and the rent,
- All preceding assignments that may have occurred prior to the current assignment,
- Sales contract, and
- In cases of age or income restricted leasehold communities, the Veteran-lessee consent statement.

Refer to [Obtaining Prior Approval on VA Loans](#) for submission guidance.

Minimum Property Requirements

The subject property's overall condition must meet the VA's Minimum Property Requirements (MPRs) for safety, sanitation, and soundness.

All readily observable repairs recommended by the VA appraiser must be satisfied prior to closing. Reference: [VA Lenders Handbook, Chapter 12](#) and applicable VA circulars.

Property Condition and Quality Alternative Rating on Manufactured Homes

A Manufactured Home with a Condition or Quality Alternative Rating of less than Average is not acceptable collateral to secure a Mortgage unless all issues that caused the property to be rated less than Average are repaired prior to funding.

Mixed-Use Properties

Non-Residential Use

A property that has both a residential and business use may be eligible for loan guaranty if:

- The property is primarily for residential use;
- The non-residential use does not impair the residential character;
- The property contains no more than one business unit;
- A minimum of 51 percent of the entire building square footage is for residential use; and
- The property is legally permitted and conforms to current zoning, or is a legal, non-conforming use that is accepted by the local authority

No value may be given to the business operations or commercial fixtures in the appraisal

Potential Environmental Problem

The appraiser must report and consider the effect on value of any apparent indication of a potential environmental problem.

Examples include, but are not limited to:

- Underground storage tanks,
- Slush pits,
- Oil and gas wells (operating or abandoned),
- Hydrogen sulfide gas emitted from petroleum product wells,
- Chemical contamination (including methamphetamine) or
- Soil contamination from sources on or off the property

The appraisal report must be prepared subject to correction of the problem in accordance with any local, state, or federal requirements, or documentation from the appropriate local, state, or federal authority that the condition is acceptable.

Property Listed for Sale

The subject property may not be listed for sale at the time of closing. Properties that have been listed for sale in the last 12 months require that the appraiser must confirm:

- The property is not currently in the MLS listed for sale
- The home is not FSBO or other public offering
- Confirm the date the listing expired or was withdrawn

When the property is listed for sale at the time the appraisal is completed, the borrower must provide proof the property has been withdrawn from the market or the listing has expired.

Properties Near Airports

Whenever a property is located near an airport, appraisers must consider the effect on value of any airport noise and select comparable sales, if available, with the same airport influence.

Proposed construction located in a Clear Zone (also known as a Runway Protection Zone) is not eligible. The appraiser must stop working on the appraisal and notify the lender immediately.

For existing or new construction located in a Clear Zone, the following Veteran's acknowledgement must be required on the NOV and signed by the Veteran:

"I am aware that the property being purchased is located near the end of an airport runway and this may have an effect upon livability, safety, value and marketability of the property."

For all properties located in an accident potential zone, the following Veteran's acknowledgement must be required on the NOV and signed by the Veteran:

"I am aware that the property being purchased is located in an accident potential zone and this may have an effect upon the livability, safety, value, and marketability of the property."

Airport noise zone maps may be found at:

https://www.faa.gov/airports/environmental/airport_noise/noise_exposure_maps/.

Property Construction Definitions and Required Inspections

Existing Construction

Properties that have been completed for over 1 year based on the certificate of occupancy date, and properties that are less than 1-year old that have been previously occupied.

Existing Construction Exhibits, Inspections and Warranties

- Refer to [Local Requirements](#) and the Termite Infestation Probability Map > 'Very Heavy' or 'Moderate to Heavy' to determine if the property requires a Wood Destroying Insect Inspection. Inspections are not required on units in low-rise or high-rise condominiums unless the appraiser notes a potential infestation problem.
 - If required, Form NPMA-33 or other state or local jurisdiction form is required.
 - Any reported infestation or structural damage affecting the value of the property must be corrected to VA's satisfaction prior to closing.
 - Notice of Value (NOV) will reflect 2(a)

New Construction

Properties that have not been previously occupied and are less than 1-year old based on the certificate of occupancy date, and properties which are complete except for customer preference items (floor coverings, interior finishings, appliances, fixtures or other equipment).

- Octane Building Status = Newly Built Never Occupied

New Construction Exhibits, Inspections and Warranties

- Refer to [Local Requirements](#) and the Termite Infestation Probability Map > 'Very Heavy' or 'Moderate to Heavy' to determine if the property requires a Wood Destroying Insect Inspection.

Inspections are not required on units in low-rise or high-rise condominiums unless the appraiser notes a potential infestation problem.

- If required, Form NPMA-33 or other state or local jurisdiction form is required.
 - Any reported infestation or structural damage affecting the value of the property must be corrected to VA's satisfaction prior to closing.
 - Notice of Value (NOV) will reflect 2(a)
- **Note:** VA has clarified that a Subterranean Termite Protection Builder's Guarantee (Form NPMA-99A) and corresponding New Construction Subterranean Termite Service Record (NPMA-99B) may be used in lieu of NPMA-33.
 - Any of the Types of Service in Box 1 or Box 2 are eligible to satisfy the requirement on the Notice of Value for 2(a). VA considers the Soil Treatment preferable.
- Required Inspections
 - Either, provide a copy of the Certificate of Occupancy (CO), or equivalent document, issued by a local building authority,
 - Notice of Value (NOV) will reflect 11(a)
 - Or, if the local authority does not perform construction inspections, Cardinal must certify that the property is complete (both on-site and off-site improvements) and that it meets VA Minimum Property Requirements.
 - The Veteran must also provide a written acknowledgement that the property was not inspected during construction.
 - Notice of Value (NOV) will reflect 11(b)
- Required Warranties
 - Either, the builder must provide a 1-year VA builder's warranty completed on VA Form 26-1859, Warranty of Completion of Construction,

-
- VA will provide assistance with construction complaints limited to defects in equipment, material, and workmanship reported during the 1-year builder's warranty period.
 - Notice of Value (NOV) will reflect 11(c)
 - Or, provide evidence of enrollment in a 10-year insurance backed protection plan.
 - VA will not assist with any construction complaints.
 - Notice of Value (NOV) will reflect 11(d)
 - Lead/Water Distribution System
 - The builder's certification which identifies this dwelling and states that the solders and flux used in construction did not contain more than 0.2 percent lead and that the pipes and pipe fittings used did not contain more than 8.0 percent lead.
 - Energy Conservation
 - Builder to certify that this new dwelling was constructed to meet the energy conservation standards of the International Residential Code (IRC)
 - *Please note:* This certification is contained in the Octane Custom Form for Lead Standard Certification
 - Radon Gas
 - Builder to certify that radon resistant construction techniques were used and construction meets local building codes and state regulations for radon control, where applicable. In the absence of any building codes, certification will be based upon IRC requirements.
 - Required for properties located in Radon Zone 1 as designated by the EPA at the following website:
<https://www.epa.gov/radon/epa-map-radon-zones-and-supplemental-information>
 - Cardinal requires the builder's certification using form Builder | Radon Gas Certification
 - Note: When completing the Notice of Value (NOV), the collateral underwriter must check Box 15 for Radon Gas on all new and proposed construction properties, but if the property is in Radon Zone 2 or 3, a

copy of the Radon Zone Map must be uploaded to Octane NOV Smart Doc to alert VA that we do not need the Builder Certification.

- Post Construction Inspection by Appraiser using appraisal form 1004D.
- Well & Septic, if applicable
- Properties in Michigan:
 - A copy of the builder's license is required for all Michigan properties appraised as new construction/existing construction <1 year.

Proposed Construction

Proposed and Under Construction properties are processed under the same procedures and include:

- Properties appraised from plans and specifications,
- Properties appraised from a completed model home, and
- Manufactured homes to be placed on a permanent foundation.

Octane Building Status = Proposed, or Under Construction

Proposed/Under Construction Exhibits, Inspections and Warranties

- Refer to [Local Requirements](#) and the Termite Infestation Probability Map > 'Very Heavy' or 'Moderate to Heavy' to determine if the property requires a Wood Destroying Insect Inspection.
 - If required, Subterranean Termite Protection Builder's Guarantee (NPMA-99-A) is required
 - Must be completed by the builder and specify whether the work was done by the pest control company (Box 1) or the builder (Box 2, in the rare case of using extensive pressure-treated lumber as termite prevention).
 - Box 1 > Soil Treatment Guarantee must be selected. VA does not allow any other choices in Box 1 or Box 2.
 - Notice of Value (NOV) will reflect 2(b)

-
- If Subterranean Termite Protection Builder's Guarantee (NPMA 99-A) Box 1 is checked, New Construction Subterranean Termite Service Record (NPMA-99-B) is required.
 - Must be completed by the pest control company and includes all code-accepted methods into one service record. The code-accepted methods include Soil Applied Liquid Termiticide, Wood Applied Liquid Termiticide, Bait System, and Physical Barrier System.
 - Required Inspections and Warranties
 - Either, provide a copy of the Certificate of Occupancy (CO), or equivalent document, issued by a local building authority if that local authority performs foundation, framing and final inspections.
 - In addition, the builder must provide a 1-year VA builder's warranty completed on VA Form 26-1859, Warranty of Completion.
 - VA will provide assistance with construction complaints limited to defects in equipment, material and workmanship reported during the 1-year builder's warranty period.
 - Notice of Value (NOV) will reflect 12(a)
 - Or, if the local authority does not perform construction inspections, copies of three satisfactory inspections (Initial, Framing and Final) reports are required.
 - The Veteran must also provide a written acknowledgement that the property was not inspected during construction.
 - In addition, the property must be covered by **both** a 10-year insurance backed protection plan and a 1-year VA builder's warranty on VA Form 26-1859, Warranty of Completion of Construction.
 - VA will provide assistance with construction complaints limited to defects in equipment, material, and workmanship reported during the 1-year builder's warranty period.
 - A post-construction inspection must certify that the property is complete (both on-site and off-site improvements) and that it meets VA Minimum Property Requirements.
 - Notice of Value (NOV) will reflect 12(b)

-
- Lead/Water Distribution System
 - The builder's certification which identifies this dwelling and states that the solders and flux used in construction did not contain more than 0.2 percent lead and that the pipes and pipe fittings used did not contain more than 8.0 percent lead.
 - Energy Conservation
 - Builder to certify that this new dwelling was constructed to meet the energy conservation standards of the International Residential Code (IRC)
 - *Please note:* This certification is contained in the Octane Custom Form for Lead Standard Certification
 - Radon Gas
 - Builder to certify that radon resistant construction techniques were used and construction meets local building codes and state regulations for radon control, where applicable. In the absence of any building codes, certification will be based upon IRC requirements.
 - Required for properties located in Radon Zone 1 as designated by the EPA at the following website:
<https://www.epa.gov/radon/epa-map-radon-zones-and-supplemental-information>
 - Cardinal requires the builder's certification using form Builder | Radon Gas Certification
 - Note: When completing the Notice of Value (NOV), the collateral underwriter must check Box 15 for Radon Gas on all new and proposed construction properties, but if the property is in Radon Zone 2 or 3, a copy of the Radon Zone Map must be uploaded to Octane NOV Smart Doc to alert VA that we do not need the Builder Certification.
 - Post Construction Inspection by Appraiser using appraisal form 1004D.
 - Well & Septic, if applicable
 - Properties in Michigan:

- A copy of the builder's license is required for all Michigan properties appraised as either proposed or under construction.

Construction Exhibits Required for Appraisal Completion

- Properties appraised from plans and specifications
 - Survey or plot plan,
 - Plans sufficient to allow the appraiser to establish market value,
 - Foundation or basement plan,
 - Exterior elevations,
 - Wall section, and
 - Specifications, on either VA Form 26-1852 *Description of Materials*, HUD Form 92541 *Builder's Certification of Plans, Specifications, & Site*, or other format that provides essentially the same information in sufficient detail.
- Properties appraised from a completed model home
 - The appraisal order should note "Appraisal from Model Home",
 - The model home must be fully completed,
 - Must be the same plan type as the subject home (reversed plans are acceptable),
 - Located in the same market area,
 - Readily accessible to the appraiser, and
 - Contact information for the sales office or an individual who can provide the appraiser with access to the interior of the model home

VA-Issued Builder Identification Number

Per Circular [26-25-01](#), A VA-issued builder identification number is no longer necessary for issuing the NOV or processing a loan on a new or proposed construction property for VA-guaranteed loans. Builders are still expected to meet any state and/or local licensing requirements.

Manufactured Homes

Cardinal will lend on manufactured homes (double-wide or single-wide) on all transaction types.

VA Manufactured Housing Requirements

The following eligibility requirements and minimum property requirements (MPRs) must be met for all manufactured homes:

- The manufactured home must be permanently affixed to the foundation
- The manufactured home must be classified and subject to taxation as real estate
- The manufactured home must be an existing construction, defined as when the foundation has been fully completed and the manufactured home unit has been installed
- Must substantially conform with VA Minimum Property Requirements (MPRs)
- Conform to applicable building code and zoning requirements for real estate
- Manufactured Home PUD and Condos must be detached only
- Contain at least 700 square feet for double-wide homes and 400 square feet for single-wide homes
- The manufactured home must have been built and installed in compliance with the Federal Manufactured Home Construction and Safety Standards that HUD established June 15, 1976 and additional requirements that appear in HUD regulations at 24 C.F.R. Part 3280 as evidenced by the presence of both a HUD Data Plate and the HUD Certification Label (Tag). Manufactured homes built prior to June 15, 1976 are ineligible.
 - If the original or alternative documentation cannot be obtained for both the Data Plate/Compliance Certificate and HUD Certification Label (tag), the loan is not eligible.
 - If the HUD tag is missing, a recent "HUD Certification Verification" letter issued by the Institute for Building Technology and Safety (IBTS) or a copy of the Data Plate from the In-Plant Primary Inspection Agency (IPI) or manufacturer must be in the loan file.

Existing construction is generally defined as when the foundation for a manufactured home has been fully completed and the manufactured home unit has been installed.

There are two MPR-related requirements for existing construction manufactured homes:

- The site, manufactured home unit, and other on-site improvements (e.g. private well and septic, utilities, etc.) must meet VA MPRs for existing construction.
- The manufactured home unit must be properly attached to a permanent foundation system which is constructed to withstand both supporting loads and wind-overturning loads, and is acceptable to the State or local building authority.

If the VA fee appraiser has reasonable doubts as to the acceptability of the foundation system where there are no local requirements, a statement from a registered professional engineer is required.

The Cost Approach is not required but may be completed to supplement the indicated value in the sales comparison approach. Since VA relies on the sales comparison approach to value, the appraised value should never exceed the value indicated in the Sales Comparison Approach without detailed explanation.

Manufactured Home Moved from Original Site

In cases involving a *used* manufactured home moved to the purchaser's lot to be affixed to a permanent foundation, all of the following additional manufactured home inspection reports are required to ensure the safety of the dwelling:

- Water-Plumbing Systems Inspection Report, VA Form 26-8731a
- Electrical Systems Inspection Report, VA Form 26-8731b
- Fuel and Heating Systems Inspection Report, VA Form 26-8731c, and
- Certification that the roof was coated after set-up on the site

These reports must be completed by qualified third-party inspectors, for example, experienced plumbers, electricians, heating and air-conditioning contractors, and manufactured home service personnel, following the installation and setup of the manufactured home on the lot.

The roof coating certification can be made by Cardinal utilizing the [Lender and Borrower Completion Certification](#).

While inspectors will perform only those inspections for which they are qualified, licensed manufactured home service personnel will be permitted to perform any of the required inspections. Cardinal must order the inspections and retain the original of the reports in their loan origination file. No loan on a manufactured home with unsatisfactory inspections is eligible for VA guaranty.

Ineligible Manufactured Home Property Types

- Manufactured home where the foundation has not been fully completed and the manufactured housing unit is not permanently affixed
- Manufactured home that is not titled as real estate at closing; properties in conversion from chattel to real estate
- Condominiums located in a development not accepted by VA prior to loan guaranty; VA no longer accepts HUD/FHA condominium approvals
- Co-Ops
- Parks
- Leasehold
- Multiple manufactured units on the same lot, unless meeting requirements for an [Accessory Dwelling Unit](#)

Titling a Manufactured Home as Real Property

- All manufactured home units and land must be classified as real property and taxes as such by the local authority.
- The property description section (or rider) of the security instrument must include a description of the manufactured home, including the VIN or serial number, and the land.
- ALTA 7 or other state specific equivalent Title Endorsement is required for the final title insurance policy.
- When the land is purchased separately from the unit, there may be two deeds:

- A property deed for the land.
- A chattel deed or motor vehicle title for the unit.
- The land and unit must be deeded as one and the title policy must specifically state and validate that the manufactured home and land are classified as real estate and taxed as one parcel.
- The loan is not eligible if the original chattel deed or motor vehicle title is not purged and the property does not have clear marketable real estate title.

Appraisal Requirements

The appraiser must be able to access the interior of the manufactured home (MH) unless it is *both*:

- New, and
- Has not been delivered to the dealer or to the site

In those cases where the appraiser is unable to access and/or inspect the new MH, the appraiser must obtain the following documents to be included in his/her appraisal:

- MH plans: design or floor plans showing room layout and exterior dimensions for MH unit, and elevation plans;
- Specifications: information on all standard items of inclusion such as flooring, heating, plumbing, electrical equipment, and appliances;
- Supplemental information on any selected options or upgrades included in the subject sale; and
- Foundation plan

If other MH's classified as real estate on permanent foundations are not available for use as comparables, the appraisal report must:

- State that fact, and
- Show in the market analysis grid that the sales prices of the best comparable conventional home sales available were properly adjusted

Additions, Modifications - Special State Requirements

Additions or structural modifications may put the home at risk if the changes were not performed in accordance with the HUD code.

- Appraiser must describe any additions/modifications made to the MH since its initial site placement
- Appraiser must notify the lender if it is suspected that an addition/modification poses a risk to the structural integrity of the home

In addition, Fee Appraisers are expected to be familiar with [state and local regulations](#) governing manufactured homes (for example, missing HUD labels, alterations, modifications, additions, or component replacements), and to prepare appraisals subject to appropriate requirements for compliance. Underwriters should review state and local regulations to confirm modifications to the manufactured home meet any applicable guidance.

HUD Red Tags

All MHs must have a HUD label (commonly known as the “red tag”), a metal tag affixed outside. A multi-wide unit has multiple HUD tags; one for each transported section/unit.

When the HUD labels are missing the appraiser must notify the lender and condition the appraisal for documentation verifying the HUD labels were issued to the manufactured home.

The Institute for Building Technology (IBTS) maintains data regarding HUD certification labels and data plates. The IBTS can provide the following verifications:

- HUD Label Verification Letter includes: label number, serial number, date of manufacture, manufacturer name and plant location, location of the first destination (usually the retailer)
- HUD Data Plate/Compliance Certificate

For further information see: VA circular 26-14-24

HUD Data Plate

There is only one (1) data plate that is made of paper. It is typically found inside the home in one of three locations:

- Adjacent to the electric service panel in the utility room, or In a kitchen cabinet, or in a bedroom closet

The data plates contain the HUD Certification Label Number to assist in ordering the HUD Label Verification Letter from IBTS. It also contains useful information:

- Manufacturer name, serial number, model, and date of manufacture, as well as [Wind Load , Roof Load, and Thermal Zones](#)
- Appraiser should provide a legible photo of the data plate
- Appraiser should report if the data plate is missing, but need not reject the property if so. Appraiser should also check the data plate to see if the MH was constructed for the geographic area for which it was installed. If not, the appraiser must report to the lender who will make the borrower aware of this fact

Wind Load, Roof Load and Thermal Zones

Each manufactured home must be designed according to the Federal Manufactured Home Construction and Safety Standards at 24 CFR 3280, commonly called the HUD Code. The HUD Code stipulates that the home shall be designed and constructed to conform to one of three wind load, roof load and thermal zones.

The Data Plate contains maps of the United States to inform the owner of the wind load, roof load and thermal zones. The appraiser is responsible for verifying the information related to placement of the home in the appropriate zone, however, it is the responsibility of the Underwriter to confirm that the property is in the correct zone for which it was manufactured. If the home is installed in the incorrect zone, the property is ineligible for financing.

Data Plate/ HUD Compliance Certificate sample displaying the wind load, roof load and thermal zones:

Date of Manufacture _____ HUD label No.(s) _____
Manufacturer's Serial Numbers) and Model Unit Designation _____

Design Approval by (D.A.P.I.A.) _____

This manufactured home is designed to comply with the federal manufactured home construction and safety standards in force at time of manufacture.

(For additional information, consult owner's manual.) _____

The factory installed equipment includes:

Equipment	Manufacturer	Model Designation
For Heating		
For Cooking		
Refrigerator		
Water Heater		
Washer		
Clothes Dryer		
Dishwasher		
Fireplace		
Microwave		
Air Conditioner		

- For Heating
- For Cooking
- Refrigerator
- Water Heater
- Washer
- Clothes Dryer
- Dishwasher
- Fireplace
- Microwave
- Air Conditioner

HOME CONSTRUCTED FOR _____ ZONE I _____ ZONE II _____ ZONE III _____ EXP. "D"

This home has not been designed for the higher wind pressure and anchoring provisions required for ocean/coastal areas and should not be located within 1500' of the coastline in Wind Zones II and III, unless the home and its anchoring and foundation system have been designed for the increased requirements specified for Exposure D in ANSI/ASCE 7 - 88.

This home has () has not () been equipped with storm shutters or other protective coverings for windows and exterior door openings. For homes designed to be located in Wind Zones II and III, which have not been provided with shutters or equivalent covering devices, it is strongly recommended that the home be made ready to be equipped with these devices in accordance with the method recommended in manufacturers printed instructions.

BASIC WIND ZONE MAP



Design roof load zone map: _____ North 40 psf _____ South 20 psf
_____ Middle 30 psf _____ Other _____ psf



COMFORT HEATING

This manufactured home has been thermally insulated to conform with the requirements of the federal manufactured home construction and safety standards for all locations within Uo value Zone _____ (See map at bottom)

Heating equipment manufacturer and model (See list at left).

The listed heating equipment has the capacity to maintain an average 70 degrees Fahrenheit temperature in this home at outdoor temperatures of _____ degrees Fahrenheit

To maximize furnace operating economy, and to conserve energy, it is recommended that this home be installed where the outdoor winter design temperature (97 1/2%) is not higher than _____ degrees Fahrenheit.

The above information has been calculated assuming a maximum wind velocity of 15 mph at standard atmospheric pressure.

COMFORT COOLING

Air conditioner provided at factory (Alternate I)

Air conditioner manufacturer and model (see list at left).

Certified capacity _____ B.T.U./hour in accordance with the appropriate air conditioning and refrigeration institute standards.

The central air conditioning system provided in this home has been sized assuring an orientation of the front (high end) of the home facing _____. On this basis the system is designed to maintain an indoor temperature of 75°F when outdoor temperatures are _____ °F dry bulb and _____ °F wet bulb.

The temperature to which this home can be cooled will change depending upon the amount of exposure of the windows of this home to the sun's radiant heat. Therefore, the home's heat gains will vary dependent upon its orientation to the sun and any permanent shading provided. Information concerning the calculation of cooling loads at various locations, window exposures and shadings are provided in Chapter 22 of the 1989 edition of the ASHRAE Handbook of Fundamentals. Information necessary to calculate cooling loads at various locations and orientations is provided in the special comfort cooling information provided with this home.

Air conditioner not provided at factory (Alternate II)

The air distribution system of this home is suitable for the installation of central air conditioning. The supply air distribution system installed in this home is sized for a manufactured home central air conditioning system of up to _____ B.T.U./hr. rated capacity which are certified in accordance with the appropriate air conditioning and refrigeration institute standards, when the air circulators of such air conditioners are rated at 0.3 inch water column static pressure or greater for the cooling air delivered to the manufactured home supply air duct system.

Information necessary to calculate cooling loads at various locations and orientations is provided in the special comfort cooling information provided with this manufactured home.

To determine the required capacity of equipment to cool a home efficiently and economically, a cooling load (heat gain) calculation is required. The cooling load is dependent on the orientation, location and the structure of the home. Central air conditioners operate most efficiently and provide the greatest comfort when their capacity closely approximates the calculated cooling load. Each home's air conditioner should be sized in accordance with Chapter 22 of the American Society of Heating, Refrigerating and Air Conditioning Engineers (ASHRAE) Handbook of Fundamentals 1989 edition, once the location and orientation are known.

INFORMATION PROVIDED BY THE MANUFACTURER NECESSARY TO CALCULATE SENSIBLE HEAT GAIN

Walls (without windows and doors).....	_____	sq. ft.
Ceiling and roofs of light color.....	_____	sq. ft.
Ceilings and roofs of dark color.....	_____	sq. ft.
Floors.....	_____	sq. ft.
Air ducts in floor.....	_____	sq. ft.
Air ducts in ceiling.....	_____	sq. ft.
Air ducts installed outside the home.....	_____	sq. ft.

The following are the duct areas in this home:

Air ducts in floor.....	_____	sq. ft.
Air ducts in ceiling.....	_____	sq. ft.
Air ducts outside the home.....	_____	sq. ft.

U/O VALUE ZONE MAP



Wind Load Zone

The appropriate wind zone used in design is dependent on where the home will be initially installed. Homes designed and constructed to a higher Wind Zone can be installed in a lower Wind Zone (a Wind Zone III home can be installed in a Wind Zone I or II location). However, a Wind Zone I home cannot be installed in either a Wind Zone II or III area.

Roof Load Zone

The appropriate roof load used in design is dependent on where the home will be initially installed. Homes designed and constructed to a higher Roof Load Zone can be installed in a lower Roof Load Zone (a home designed to a North Zone can be installed in a Middle or South Roof Load Zone). However, a South Roof Load Zone home cannot be installed in either a Middle or North Roof Load Zone.

Thermal Zone

The appropriate thermal zone value used in design is dependent on where the home will be initially installed. Homes designed and constructed to a higher Thermal Zone can be installed in a lower Thermal Zone (a home designed to a Thermal Zone 3 can be installed in a Thermal Zone 1 or 2). However, a Thermal Zone 1 home cannot be installed in either a Thermal Zone 2 or 3 area.

Insurance

Dwelling coverage is determined by the insurer.

New and Proposed Construction

A property delivered to the site within the last 12 months is considered new construction.

For new or proposed construction of a manufactured home, the appraiser must analyze the manufacturer's invoice and any other documents that pertain to what the sale included such as:

- Payoff of personal debt
- Land included in the contract

- Foundation plan
- Floor plan showing room layout and exterior dimensions
- Elevation plans
- Specifications for flooring, heating, plumbing, electrical equipment, appliances and other items included with the manufactured home

New Construction Termite Inspection Requirements

- Refer to Local Requirements and the Termite Infestation Probability Map > 'Very Heavy' or 'Moderate to Heavy' to determine if the property requires a Wood Destroying Insect Inspection. Inspections are not required on units in low-rise or high-rise condominiums unless the appraiser notes a potential infestation problem.
 - If required, Form NPMA-33 or other state or local jurisdiction form is required.
 - Any reported infestation or structural damage affecting the value of the property must be corrected to VA's satisfaction prior to closing.
 - Notice of Value (NOV) will reflect 2(a)
 - **Note:** VA has clarified that a Subterranean Termite Protection Builder's Guarantee (Form NPMA-99A) and corresponding New Construction Subterranean Termite Service Record (NPMA-99B) may be used in lieu of NPMA-33.
 - Any of the Types of Service in Box 1 or Box 2 are eligible to satisfy the requirement on the Notice of Value for 2(a). VA considers the Soil Treatment preferable.

Proposed/Under Construction Termite Inspection Requirements

- Refer to Local Requirements and the Termite Infestation Probability Map > 'Very Heavy' or 'Moderate to Heavy' to determine if the property requires a Wood Destroying Insect Inspection.
 - If required, Subterranean Termite Protection Builder's Guarantee (NPMA-99-A) is required

- Must be completed by the builder and specify whether the work was done by the pest control company (Box 1) or the builder (Box 2, in the rare case of using extensive pressure-treated lumber as termite prevention).
- Box 1 > Soil Treatment Guarantee must be selected. VA does not allow any other choices in Box 1 or Box 2.
- Notice of Value (NOV) will reflect 2(b)
- If Subterranean Termite Protection Builder's Guarantee (NPMA 99-A) Box 1 is checked, New Construction Subterranean Termite Service Record (NPMA-99-B) is required.
 - Must be completed by the pest control company and includes all code-accepted methods into one service record. The code-accepted methods include Soil Applied Liquid Termiticide, Wood Applied Liquid Termiticide, Bait System, and Physical Barrier System.

New or Proposed Construction Additional Inspections and Warranties

- Required Inspections
 - Either, provide a copy of the Certificate of Occupancy (CO), or equivalent document, issued by a local building authority,
 - Notice of Value (NOV) will reflect 13(a)
 - Or, if the local authority does not perform construction inspections, Cardinal must certify that the property has been installed on a permanent foundation.
 - The Veteran must also provide a written acknowledgement that the property was not inspected during the construction of the manufactured home foundation.
 - Notice of Value (NOV) will reflect 13(b)
- Required Warranties
 - All manufactured homes require:
 - VA Form 26-8599, Manufactured Home Warranty, and

- 1-year VA builder's warranty on VA Form 26-1859, Warranty of Completion of Construction.
- VA will provide assistance with construction complaints limited to defects in equipment, material, and workmanship reported during the 1-year builder's warranty period.
- Lead/Water Distribution System
 - The builder's certification which identifies this dwelling and states that the solders and flux used in construction did not contain more than 0.2 percent lead and that the pipes and pipe fittings used did not contain more than 8.0 percent lead.
- Energy Conservation
 - Builder to certify that this new dwelling was constructed to meet the energy conservation standards of the International Residential Code (IRC)
 - *Please note:* This certification is contained in the Octane Custom Form for Lead Standard Certification

Title Binder

Preliminary title binder must reference an Alta 7 endorsement that will be included in the final policy.

Title binder must:

- Reflect manufactured home has been relinquished from the Department of Motor Vehicles and will be recorded as real property and has been detitled if applicable.
- Include the improvement tax, that is, what the taxes will be once the manufactured home is converted to real property.
- Survey requirements must be removed from the final title if the above two items are met. Borrowers to execute Affixation Affidavit at closing.

Modular Home

Dwelling is constructed at the factory in modular sections in compliance with all state and local building codes. Although factory-built, modular housing and on-frame modular housing is treated in the same

manner as conventionally built housing and appraisal form 1004 is used. The appraiser must select comparable sales that would be competing properties on the market which may include modular homes, conventionally built homes, or manufactured homes.

On-frame modular housing is factory built on a permanent chassis. The appraiser must ensure that:

- All running gear is removed,
- The crawl space is covered by a vapor barrier with vented permanent masonry skirting,
- The skirting has an access hatch, and
- The home is secured to a permanent foundation that meets state and local requirements.

Properties “Off Grid”

There is no Federal law that prohibits a home loan on a property that is "off the grid". Therefore, Veterans can obtain a VA guaranteed loan on a home powered by an alternative source of electrical energy.

VA must issue the NOV for the loan. VA will not render final approval until the property has been appraised and all the requisite documentation is provided. In the event there's a need to gain prior approval of the alternative electrical source before an appraisal is ordered to ensure that all the requirements are met beforehand, that information may be submitted to VA for “pre-appraisal” approval.

This approval is subject to the appraiser's comments and observations on:

- Whether the property is habitable from the standpoint of safety, structural soundness, and sanitation
- How the subject is heated and can be maintained at 50 degrees, and
- How the home is supplied with potable (hot) water and provided with a sanitary septic system

Every "off-the-grid" property requires approval by the VA Valuation Officer and that it be documented in the WebLGY case notes. The approval is on a case-by-case basis according to basic VA Minimum Property Requirements (MPRs) and the following conditions:

- The property must be marketable,

- A whole-house, permanently-affixed, commercial grade generator must be hard-wired into the dwelling with a substantial verifiable fuel source (a portable generator will not qualify),
- A written opinion from a certified electrician or qualified professional must state that the back-up generator and/or energy storage system can sufficiently and consistently provide all of the electricity needed for reasonable domestic usage (generally capable of producing 20–30 kW),
- Documentation that the alternative source of electricity is typical for the area and that a conventional electrical power supply is not available at the street,
- Photos of the generator and documentation related to any supporting energy storage and heating systems must be provided,
- The property must be accessible year-round, and the appraisal must include comparable sales that are also “off the grid” and are common to the area of the subject property.

Unique Housing Types

Nonstandard House Styles

Nonstandard House Style refers to unique properties in the market area, including log houses, earth sheltered housing, dome houses, houses with lower than normal ceiling heights, and other houses that in the appraiser’s professional opinion, are unique.

The appraiser must provide a comment that the nonstandard house style appears structurally sound and readily marketable and must apply appropriate techniques for analysis and evaluation. In order for such a property to be fully marketable, the appraiser must demonstrate that it is located in an area of other similar types of construction and blend in with the landscape.

The appraiser may require additional education, experience, or assistance for these types of properties.

Cardinal will treat a property as unique when it falls into any of the following property classifications:

- Non-traditional construction or shape
 - Examples include:

- Log (log interior walls)
- Dome/geodesic
- Earth-berm
- Barndominium
- Shouse (shop/house hybrid)
- 3-D-printed
- Container
- Adaptive-reuse or specialty use
 - Examples include:
 - Barn/warehouse/industrial converted to residential
 - Religious structure converted to residential
 - Houseboat/floating home
- Tiny home, Ultra-small or atypical livability features
 - Defined as:
 - GLA under 400 sq ft
 - Ceiling height below local norms
 - Off grid utilities
- Excess site or unusual location
 - Defined as:
 - Acreage far beyond neighborhood norms
 - Inaccessible except by water
 - Steep hillside requiring stilts/pilings

The construction quality, materials, and maintenance must be typical for the area or acceptable for the market segment.

Additional factors must be considered when determining the acceptability of unique property types:

- Current zoning requirements must be met,
- If the subject is located in a PUD or Condominium project, the subject must comply with the bylaws of the project,

- Where applicable, as in the case of tiny or container homes, the subject must be permanently affixed to the foundation, and
- The subject must meet all remaining appraisal requirements noted within this chapter

Well and Septic

VA Loans require connection to a public or community water and sewage disposal system whenever feasible. When the subject property has an individual or private water supply system such as a well, VA Regional Loan Centers require that the water supply meets specifications as established by the local health authority.

Water Supply System Testing

- A satisfactory water quality test completed by the local (county, city, or state) health department, commercial testing laboratory, or licensed sanitary engineer acceptable to the health authority is required.
 - All testing must be performed by a disinterested third party. This includes collecting and transporting the water sample from the water supply source.
 - At no time will the Veteran, real estate agent, or any other interested party collect and/or transport the sample.
- The water quality test is valid within 90 days of the closing date which is defined as the Effective Note Date within Octane. If more than 90 days has elapsed between the test date and the effective note date, another water sample must be obtained and tested.
- VA specific water quality or well certification forms are not required.

If the local health authority has not established specific requirements, then requirements established by the State health authority will be used. In the case where there are no State requirements, then requirements established by the Environmental Protection Agency (EPA) will be used. For further information, refer to:

<https://www.epa.gov/privatewells/private-drinking-water-well-programs-your-state>, or

<https://www.cdc.gov/healthywater/drinking/private/wells/testing.html>

When state health authority has not established standards, the contaminants identified by the all must be tested and reported on and must meet the standards outlined here: [National Primary Drinking Water Regulations | US EPA](#)

Note: Units are in milligrams per liter (mg/L) unless otherwise noted. Milligrams per liter are equivalent to parts per million (PPM).

Note:

In certain jurisdictions, the source of the water for the water quality test may be the faucet. However, in other jurisdictions, the water must come directly from the well. See the Requirements by Jurisdiction section below.

Requirements by Jurisdiction

The following VA Regional Loan centers allow the source of the water quality sample to be the well:

- Atlanta
- Cleveland
- Denver
- Houston
- Roanoke
- St Paul

The following VA Regional Loan centers require the source of the water quality sample to be the well:

- Hawaii
- Phoenix

The following VA Regional Loan centers require the water quality sample to be taken from the well or the entry point of the house. It may not come from a source inside the home.

- St Petersburg

Shared Well

A shared well refers to a well that serves two or more properties. The shared well agreement must be obtained and reviewed to determine eligibility.

The shared well must be:

- Capable of providing a continuing supply of safe and potable water to each property simultaneously, so that each dwelling will be assured a sufficient quantity for all domestic purposes,
- Protected by a permanent easement, which allows for maintenance and repair, and
- Maintained under a well-sharing agreement containing provisions for the cost of repairs that is binding on the signatory parties and successors in title and has been recorded in public records

The appraiser must report that the property is served by a shared well and note any readily apparent deficiencies. The water quality test must also meet the requirements applicable to an Individual Water Supply.

Septic Testing

- An individual Septic (Sewage) test is only required if:
 - The appraiser suspects a problem with the system and either requires a test or indicates that a Septic test is mandated by the applicable State or Local jurisdiction.
 - Note: for properties located in NJ, AK, MA and ID (Kootenai County only) with a private sanitation source, a septic inspection is required.
 - There is knowledge of a problem with the system
- If an inspection is required, a certification must be provided by one of the following:
 - Approval or certification from the local Health Authority
 - Certification by a licensed sanitarian
- Septic certification is valid for 90 days from the closing date

- Individual water and/or septic systems must meet local health standards, or EPA standards, in the absence of local standards.

Notice of Value (NOV)

The Cardinal staff appraisal reviewer (SAR) must determine the appraisal is acceptable to VA and then will issue the NOV at the appraised value reflected in the appraisal report.

Cases ordered as IND in WebLGY will be reviewed by the Regional Loan Center. The veteran must receive a copy of the NOV within five days of the NOV issuance. An NOV issued through “webLGY” requires evidence it was electronically delivered to the borrower, otherwise the NOV must be signed by the SAR. The NOV is valid for six months. The SAR must consider the local requirements, see http://www.benefits.va.gov/HOMELOANS/appraiser_cv_local_req.asp for more information.

Reconsideration of Value

Written Request

After the NOV has been issued, the Veteran may request reconsideration of value in writing by contacting the RLC of jurisdiction. If the request is submitted to the RLC through the lender, the SAR is encouraged to research market data and provide a recommendation to the RLC with the Veteran’s request.

Providing [Market Data](#) in support of the request, is encouraged, but not required. A market data grid is not required.

Review by VA Staff

Within 5 business days, VA staff will review the appraisal report, additional submitted data, as well as the market data available through VA’s AMS. In some cases, VA staff may conduct a field review which will be completed within 20 business days. If VA staff determines that an increase in value is appropriate, VA will issue an amended NOV.

Assets

The asset recommendations in the AUS findings may be followed with the exception of a Verification of Deposit (VOD). A VOD is not accepted by Cardinal.

Verification of Assets and Cash to Close Requirements

Verify all liquid assets owned by the borrower(s) to the extent they are needed to close the loan. In addition, verify any liquid assets that may have a bearing on the overall credit analysis (significant assets). Use certified copies of the borrower's last two bank statements.

Sufficient cash for any borrower paid closing costs and points must be verified unless the loan program is an IRRRL.

If the sales price is greater than the NOV, funds to cover the difference must be verified.

Bank Statements

Certificate of Deposit (CD)

When funds from a Certificate of Deposit (CD) are required for the down payment or closing costs, and the Note date precedes the CD's maturity date, proof of liquidation is required to reflect any potential early withdrawal penalties and confirm the net available funds.

Joint Accounts

If the borrower does not hold the deposit account solely, all non-borrower parties (including non-borrowing spouse) on the account must provide a written statement that the borrower has full access to and use of the funds.

Large Deposits

VA does not require asset statements be evaluated for any large deposits. Underwriters may, at their discretion, require documentation to source a deposit as needed if there is any indication funds may be from a borrowed or ineligible source.

Documentation Required to Source Funds

To be considered fully documented and sourced the following must be obtained:

- A written explanation from the borrower (such as letter of explanation or email) and documentation verifying the source of the funds, or
- Verbal sourcing and documenting the file with a processor certification

Non-Sufficient Funds (NSF)

Borrowers utilizing assets that reflect any NSF fees and/or overdraft charges on the current bank statement(s) are required to provide an explanation if the loan is being manually underwritten and credit history or assets are in question.

The explanation should outline circumstances that led to the insufficient funds and affirm that those circumstances are not likely to occur in the future.

Overdraft protection withdrawals are generally considered a neutral factor and are not considered negatively. Overdraft protection funds are frequently unsecured loans or lines of credit and may not be used for the borrower's earnest money deposit (EMD) or funds to close unless they are transferred from another asset account held by the borrower and do not constitute an unsecured loan or line of credit.

Business Funds

VA does not have specific guidance for the use of business assets in mortgage transactions. However, Cardinal allows business assets to be used for down payment, closing costs, and reserves, subject to the following requirements.

Documentation Requirements

For self-employed borrowers using business funds, the following must be provided:

- Business Asset Verification
 - Business assets must be verified using traditional or alternative documentation requirements outlined in the Bank Statements section above.

- Proof of Ownership
 - Documentation must confirm that the borrower owns the business account.
- Additional Reserve Requirement
 - Because business funds are typically needed for overhead and future capital needs, the borrower must have one (1) additional month of PITIA cash reserves beyond the loan's reserve requirement, based on all verified assets documented in Octane.
 - If the additional one (1) month of PITIA reserves is not available, an exception must be approved through the [Requesting a Loan Exception Review](#) process.

College Accounts - 529C

A 529 College Savings Plan is an eligible source of funds provided that the borrower is the owner of the account and has access to the funds. The underwriter must evaluate the terms of the plan and calculate the effective net balance (after any potential fees, taxes, or penalties that would reduce the balance are considered).

To determine if liquidation is required, the underwriter must understand where the money is invested (stocks, bonds, mutual funds, etc.) and base the eligible asset amount on the effective net balance.

Cryptocurrency, Digital Currencies or Altcoins

Cryptocurrency, Digital Currencies or Altcoins may be considered as an acceptable source of funds once converted to cash and deposited into the borrower's account. A sufficient paper trail supporting the source of the funds must be provided.

Custodial Accounts for Children or Others

A custodial account is a financial account (such as a bank account, a trust fund, or a brokerage account) set up for the benefit of a beneficiary, and administered by a responsible person, known as a legal guardian or custodian, who has a fiduciary obligation to the beneficiary.

Funds from Custodial Accounts may be used with evidence the borrower is on the account.

Down Payment

VA transactions do not require a down payment by a Veteran that has full entitlement. A down payment is required when the requested loan amount exceeds the VA county loan limit http://benefits.va.gov/homeloans/purchaseco_loan_limits.asp.

Earnest Money

If the earnest money deposit is being considered part of the Veteran's overall assets, the earnest money deposit must be verified.

Documentation Required

- Copy of the canceled check or bank statement showing clearance of the check
- Receipt from the holder of the deposit
- Bank statements to source the deposit per the AUS findings

Foreign Deposits

Funds may be used as an eligible source of funds for down payment, closing costs and reserves. Borrower funds that are deposited in a financial institution located either inside or outside of the U.S, but denominated in non-U.S. currencies, must be transferred into U.S institutions prior to closing.

The use of foreign deposits for closing funds and reserves require all of the following:

- Evidence of wire transfer of foreign assets into the borrower's U.S. bank/deposit account
- Documentation that transferred funds belonged to the borrower prior to transfer
- The source of all funds used for closing can be verified following the same requirements for U.S. based depository institution
- Evidence that the country of origin is not on the list of OFAC sanctioned countries
- Transfer of funds to the appropriate U.S. institution must be verified prior to closing

All documents must be filled out in English, or must be translated into English by the document originator or a disinterested third-party translation service. The translation must be attached to each document, and warrant that the translation is complete and accurate. Examples of acceptable third-party translation services:

- Google Translate or similar site
- Professional translation service
- An individual who considers themselves competent in both English and the document's original language

Gift Funds

A gift can be provided by a donor that does not have any affiliation with the builder, developer, real estate agent, or any other interested party to the transaction.

Gift Letter Requirements

The borrower must provide an executed gift letter from the donor, the gift letter must:

- State the dollar amount of the gift
- Reference the property being financed
- Date the funds were (or will be) transferred
- Include a statement from the donor that no repayment is expected
- Include the gift donor's name, address, telephone number, and relationship to the borrower
- Include the institution and account number of the donor from which the funds were (or will be) transferred

Note: If gift funds are transferred to title, and the amount of gift funds reflected on the CD differ from the amount reflected on the Gift Letter, an updated letter must be provided reflecting an amount equal to

that shown on the CD. This requirement applies even when funds reflected on the CD are less than the amount on the initial Gift Letter.

Gift Documentation Requirements

The below documentation requirements outlined the items required dependent on the timing and type of gift remittance or transfer.

The underwriter may request additional supporting documentation to verify the stated relationship between the borrower and the donor if any inconsistencies are identified.

If the gift funds...	Then document gift transfer by...
<ul style="list-style-type: none"> Are already deposited in the Borrower’s account 	<ul style="list-style-type: none"> Borrower’s bank statement, record of account, account history, or receipt notification showing gift funds available to include the following: <ul style="list-style-type: none"> Confirmation of gift deposit Gift amount(s) Date(s) of gift deposits/receipt
<ul style="list-style-type: none"> Will be provided at closing via certified check, cashier’s check, money order, official check, wire or other type of bank check 	<ul style="list-style-type: none"> Copy of certified check, wire receipt, or closing agent’s acknowledgement of gift receipt if check was payable to the Escrow Agent.
<ul style="list-style-type: none"> Earnest Money deposited with settlement agent 	<ul style="list-style-type: none"> Copy of certified check, wire receipt, or closing agent’s acknowledgement of gift receipt if check was payable to the Escrow Agent.

Gift of Equity

A Gift of Equity is not permitted on VA transactions.

Under certain circumstances, the seller may sell the subject property to the borrower at a reduced sales price, as long as the seller and borrower are related and no funds are changing hands (no credit to the buyer may be given). Essentially, this results in a 100% LTV loan with the “equity gift” already incorporated in the lower sales price as compared to the appraised value of the home.

Private Savings Club

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool. Assets from a Private Savings Club are considered an ineligible source of funds.

Real Estate Commission

- If the borrower is a licensed Realtor, then he/she may use the entitled real estate commission from the sale of the subject property toward the required cash investment and/or closing costs.
- Verification from the Broker is required to determine the amount of authorized commission for use toward the subject transaction.
- A family member who is a Realtor may provide a gift to the borrower that is sourced from the identity non-entitled commission from the sale or listing of the subject property.
- If there is an identity of interest between the Buyer and Seller, then the real estate commission from the sale or listing of the subject property cannot be used for down payment.

Octane

- Add the amount of commission to be used as an Earnest Money Deposit to ensure the amount is reflected on the CD
- The requirement 'Evidence of EMD Clearance' can be waived
- Place the verification from the Broker addressing the amount of authorized commission in the Purchase Contract folder

Summary

Down Payment	Closing Costs	Considered part of Interested Party Contribution (IPC)	Eligible Occupancy Types
Yes	Yes	No	Primary

Reserves

VA does not require the borrower(s) to have additional cash to cover a certain number of mortgage payments, unplanned expenses, or other contingencies on the residence, or refinance of the Veteran's residence. However, the borrower's ability to accumulate liquid assets and the current availability of liquid assets for unplanned expenses should be considered in the overall credit analysis.

Reserves are required for borrowers using rental income to qualify.

Reserve Requirement for use of Rental Income

Verify all assets submitted to AUS that may have bearing on the overall credit analysis. When rental income is used to qualify, the minimum reserves required are:

- Three (3) months PITI for rental property owned
 - If the borrower has multiple properties, the borrower must have 3 months PITI documented for each property to consider the rental income
 - If there is not a lien on the property, 3 months reserves to cover expenses such as taxes, hazard insurance, flood insurance, homeowner's association fees, and any other recurring fees should be documented for the property(ies)
 - Equity in the property cannot be used as reserves
 - Cash proceeds from a VA refinance cannot be counted as the required PITI on a rental property. The reserve funds must be in the borrower's account before the new VA loan closes
 - Gift funds cannot be used to meet reserve requirements
- Six (6) months PITI for a 1 unit with ADU (which VA refers to as a two unit), or 2-4-unit property type if rental income is being used for qualification
 - If each unit is separate and not under one mortgage, 6 months PITI must be verified for each separate unit

- Equity in the property cannot be used as reserves to meet PITI requirements. This must be the borrower's own funds, not a gift
- Cash proceeds from a VA regular "Cash-Out" refinance cannot be counted as the required PITI on a rental property. The reserve funds must be in the borrower's account before the new VA loan closes

Retirement Account

Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. Verification must be obtained that the borrower has ownership of the account, the account is vested and allows withdrawals regardless of current employment status.

If the funds are being used as reserves then the following applies:

Eligible retirement accounts can be used as reserves under these guidelines:

- 60% of the vested value less any loans may be used as reserves
- Provide evidence that the retirement plan allows the borrower to make withdrawals regardless of employment status or age
- For 401(k), 403(b), and IRA accounts, information found on the most recent account statement(s) obtained from the borrower or the financial institution can serve as confirmation of the accessibility of the funds. The statement(s) must not suggest that there are restrictions on the accessibility of the funds, based on the account type or investment vehicle

Sale of Home

Funds from the sale of a home are an acceptable source of down payment, closing costs, and reserves.

Documentation Requirements

When the property is pending sale and information related to estimated funds to close and/or payoff of a mortgage liability needs to be documented, one of the following items must be provided prior to approval (PTA):

- Estimated Settlement Statement
- Title Fee Sheet
- Loan Estimate
- Closing Disclosure (CD)
- HUD-1
- Net Proceeds Calculation Worksheet

To use proceeds from the concurrent sale of owned real-estate for a down payment, minimum contribution requirements, and/or cash reserves:

- The closing of the other real estate transaction must take place before or simultaneously with the subject closing, and
- A fully-executed Closing Disclosure (CD), Final Closing Disclosure, relocation buyout agreement, or Final Settlement Statement must be provided to verify net proceeds to the borrower

Assumability

A VA loan may be assumed by a qualified borrower(s) during the life of the loan.

Borrower Eligibility

The borrower must be a Veteran who has received a Certificate of Eligibility (COE) and must occupy the property as a primary residence (with the exception of IRRRL transactions). The determination for an unmarried surviving spouse must be made by the local VA office. Cardinal limits the number of credit borrowers to four per loan transaction. If there is a non-purchasing spouse, see the applicable section for more details.

Eligible Veterans

Era	Dates	Minimum Service Requirement
World War II	09/16/1940-07/25/1947	90 days
Post World War II	07/26/1947-06/26/1950	181 days
Korean	06/27/1950-01/31/1955	90 days
Post-Korean	02/01/1955-08/04/1964	181 days
Vietnam	08/05/1964-05/07/1975	90 days
Post-Vietnam	05/08/1975-09/07/1980	181 days
	09/08/1980-08/01/1990	2 years: Enlisted after 09/07/1980 and Officer after 10/16/1981
Persian Gulf	09/08/1990	2 years or full period called to active duty, not less than 90 days

Other Eligible Borrowers

The table below identifies other eligible borrowers including Reserves/National Guard service times.

Active Duty, Reserves, National Guard	
Other Eligible Borrowers	Minimum Service Requirement
Active Duty Member	<p>A Veteran is eligible for VA home loan benefits if he or she served on active duty in the Army, Navy, Air Force, Marine Corps, USSF (United States Space Force) or Coast Guard after September 15, 1940 and was discharged under conditions other than dishonorable after either:</p> <ul style="list-style-type: none"> 90 days minimum wartime service when called up under U.S.C Title 10 181 days minimum peacetime service of continuous active duty <p>A greater length of service is required for Veterans who: enlisted (and service began) after September 7, 1980, or entered service as an officer after October 16, 1981. These Veterans must have completed either:</p> <ul style="list-style-type: none"> 24-continuous months of active duty, or

	<ul style="list-style-type: none"> the full period for which called or ordered to active duty, but not less than 90 days (any part during wartime) or 181 continuous days (peacetime)
Active Reserve or National Guard	<ul style="list-style-type: none"> 90 cumulative days of full-time* National Guard duty 30 days of the 90 cumulative days must have been consecutive <p>*Full-time National Guard duty does not include inactive duty, such as monthly drills. It also does not include basic or initial training; refer to VA Circular 26-21-08</p>
Spouses	
Unmarried surviving spouse	<ul style="list-style-type: none"> No time requirement The Veteran must have died on active duty or from a service-related disability VA form 26-1817 must be completed and submitted to the applicable VA Eligibility Center for determination An affidavit must be executed at closing certifying that the surviving spouse is not married
POW/MIA Spouse	<ul style="list-style-type: none"> Veteran must have been POW or MIA for 90 days VA form 26-1817 must be completed and submitted to the applicable VA Eligibility Center for determination

Non-Permanent Resident Alien

DACA Status

Borrowers who are classified under Category C-33 status (Deferred Action for Childhood Arrivals - DACA) are eligible for financing.

- When DACA status is identified within Octane, a requirement for the Employment Authorization Document (Form USCIS I-766) will require the Transaction Tag 'DACA Borrower is Present' be added
- This Transaction Tag is associated with the applicable Ineligible Loan Characteristics which will populate if the loan program changes from FNMA, FHA, or VA to a product that does not allow a DACA borrower

Refer to [Chapter 2 | Documentation Standards | Lending Guide](#) Citizenship Requirements for all VISA requirements and eligibility.

Foreign Address

Borrowers currently residing in a foreign country must have a primary residence or second home in the U.S. The borrower's U.S. residence must be the present address on the loan application with the foreign address listed as the mailing address on the loan application. A letter of explanation from the borrower must be obtained to explain the current residence.

CAIVRS

- Cardinal requires that a CAIVRS screening be performed and documented on each Veteran and co-borrower.
- If any borrower has a delinquent or defaulted government obligation, the credit risk of the transaction cannot be considered satisfactory.
- Any and all debts owed to the federal government must be brought current or have a satisfactory repayment arrangement prior to the transaction being approved.
- A CAIVRS screening is required for each Veteran and co-borrower on a VA IRRRL loan.
- A CAIVRS screening is not required for a non-purchasing spouse in community property states.

Certificate of Eligibility (COE)

The Certificate of Eligibility (COE) shows the available entitlement amount that the VA will use to guarantee the loan. The borrower using his/her eligibility must be the primary borrower on the loan.

With the exception of IRRRL transactions, all loans must have a Certificate of Eligibility. The lender must first attempt to obtain the COE through the [ACE application](#).

A COE may still be requested on IRRRL transactions, however, one is not required. In lieu of a COE, lenders may choose to utilize the real-time Funding Fee status information on the IRRRL Appraisal Case

Initiated screen of the loan record in WebLGY. Lenders can print this verification at any time throughout the loan origination process.

Automated Certificate of Eligibility (ACE)

An online COE may be obtained through the [ACE system](#) (WebLGY) in the VA Portal. The ACE certificate has an authorization number verifying authenticity.

If the COE cannot be obtained immediately, lenders should select the electronic application link that permits them to submit an electronic application. Inability to obtain a COE in WebLGY does not mean the veteran is ineligible, only that the system does not have sufficient information to make an automatic determination. The COE can also be obtained by sending the VA Eligibility Center the following:

- VA form 26-1880
- Proof of service documentation:
 - DD214; DD214-1
 - Proof of service for Veterans on active duty
 - Reserve/National Guard points statement
- Copy of HUD-1 statement of Closing Disclosure, if the Veteran had a previous VA loan on a home that has been sold

Once a COE is issued there may be conditions on the COE which must be met in order to receive a guaranty. Examples of conditions that could appear on the COE are:

- Active Duty Service Member (ADSM)
 - Valid unless discharged or released subsequent to the date of this certificate. A certification of continuous active duty as of date of Note is required. This COE is not valid if the ADSM was discharged after the date of the certificate. In this instance, a new COE must be required.
 - Department of Defense Manpower Data Center Status Report, accessed through the [SCRA Website](#), or a signed statement from the active duty veteran unit commander or a designated representative is required.

- Underwriter must add Borrower Tag: uw_need_va_active_duty_stmt to generate the Smart Document | Statement of Active Duty

Smart Document Reference 113.022 - Statement of Active Duty - VA

- Funding Fee
 - see [Funding Fee Status on Certificate of Eligibility](#) for more information
- Reserve or National Guard Member
 - Valid unless discharged or released subsequent to the date of this certificate. A certification of continuous service in the Selected Reserve or National Guard as of the date of the note is required
- Reserve/National Guard Funding Fee
 - Entitlement is based on service in the Selected Reserve and/or National Guard so an increased funding fee is required
- One-Time Restoration
 - Entitlement previously used for a VA LIN has been restored without disposal of the property, under provision of 38 U.S.C. 3702 (b)(4). Any future restoration requires disposal of all property obtained with a VA loan (refer to [Restoration of Entitlement](#)).
- Subsequent Use Funding Fee
 - Entitlement code of “5” indicates previously used entitlement has been restored. The Veteran must pay a subsequent use funding fee on any future loan unless the Veteran is exempt.
- Surviving Spouse
 - Eligibility of the surviving spouse and the validity of guaranty entitlement hereby evidenced will be null and void if any change in marital status occurs, subsequent to the date of this COE and prior to the date a loan to the widow or widower is closed, unless the lender making the loan was not aware of any change in marital status and obtained on the date the loan closed an affidavit from the surviving spouse in the form prescribed by the Secretary.
- Foreclosed Loan
 - Entitlement charged on a foreclosed loan cannot be restored until VA's loss on the loan has been fully repaid.

For more information regarding the veteran's eligibility and entitlement, refer to Chapter 2 of the VA Lenders Handbook.

Exclusionary Lists

Refer to [Chapter 2 Documentation Standards](#) for guidance on LDP/GSA and parties listed on the Exclusionary Lists search.

Land Trust

Loans may close in a Land Trust as long as the trust conforms to state laws and regulations; Community Land Trusts are ineligible.

Living Trust

A beneficial interest in a revocable Family Living Trust that ensures that the Veteran, or Veteran and spouse, have an equitable life estate, provided the lien attaches to any remainder interest and the trust arrangement is valid under state law.

Cardinal does not allow a borrower(s) to close in the name of a trust without prior approval from the Credit Management team, refer to the [Compliance Loan Exception Policy](#) for additional guidance on closing in a trust.

Veterans Rated Incompetent by VA

An adult who is rated incompetent by VA or under legal disability by reason of court action as a result of an inability to manage his or her own financial affairs. Included in this definition are Veterans' children who are shown to be permanently incapable of self-support, prior to the age of majority.

- Fiduciary is assigned to veteran to handle finances
- The new loan must be in the best interest of the veteran
- A fiduciary review/letter may be obtained by Cardinal

- With [Circular 26-22-09](#), Prior Approval is no longer required for a veteran who has been rated the inability to manage financial affairs (one for whom VA has appointed a fiduciary)

The Verification of VA Benefits (VA 26-8937) will indicate whether the veteran has been rated incompetent by the VA.

Credit and Obligations

Cardinal accepts merged credit reports and mortgage only credit reports (for certain loan products only). Residential mortgage credit reports (RMCR) and in-file credit reports are not acceptable. The most recent and accurate credit report must be used in our loan decision.

Cardinal utilizes the following credit vendors:

- Corelogic Credco
- Credit Plus
- Kroll Factual Data
- Accurate Financial Services

The report must be an original with no whiteout or erasures.

For Non-Credit Qualifying Interest Rate Reduction Refinances

- Credit report is not required; therefore credit report and mortgage rating options are:
 - Credit Report with additional debts
 - Mortgage Only Credit Report
 - Satisfactory payment history including all loan information

Documentation Guidelines for Credit History

Refer to the following table for documentation guidelines for credit history:

Subject and Reference	Documentation Classification	
	Documentation Guidelines and Reductions for REFER	Documentation Reductions for ACCEPT / APPROVE
Explanation of discrepancies in reported debt	No explanation is required	Same as Refer
Rental payment history	Provide a 24-month rental history directly from the landlord, through information shown on credit report or by canceled checks	No verification of rent is required
Verification of significant non-mortgage debt	Obtain direct verification for significant debts not reported on the credit report Note: Significant means that the debt has a monthly payment exceeding 2% of the stable monthly income for all borrowers	Same as Refer Note: Perform manual downgrade to Refer if direct verification reveals more than 1x30 day late payment in the past 12 months for any of the omitted debts
Mortgage payment history	Obtain direct verification when ratings are not available on mortgages that are any of the following: <ul style="list-style-type: none"> ● Outstanding, ● Assumed, or ● Recently retired. A written explanation of mortgage payment history is required for borrowers with more than 1x30 day late payment for all mortgages for the past 12 months	Perform manual downgrade to Refer for any mortgage debt with more than 1x30 day late payment in the past 12 months. Refer to the Refinance Seasoning and Mortgage History section for additional guidance specific to Cash-out Type 1 and Type 2 refinance transactions
Account balances	If a mortgage or other significant debt is listed on the credit report as past due and was last updated \geq 90 days, verify current status of past due debt	Same as Refer, however if rating is currently \geq 90 days past due, manually downgrade to Refer
Derogatory credit information	Obtain an explanation for derogatory credit. Explain assessment of creditworthiness on Loan Analysis VA Form 26-6393	No determination of creditworthiness is required

30-Day Charge Accounts

An open 30-day charge account is defined as an account in which the borrower(s) must pay off the outstanding balance on the account every month.

- For open 30-day charge accounts, determine if the borrower(s) pays the balance in full each month, and has verified funds to cover the account balance in addition to any funds required for closing costs. If there are sufficient funds, the payment does not need to be included in the qualifying ratios.
- If the borrower has paid the account balance in full prior to closing, the underwriter may obtain proof of payoff in lieu of verifying funds to cover the account balance.
- If there are not sufficient funds, a minimum payment of 5 percent of the balance should be considered. Within Octane, the account should be manually updated to a Revolving Charge Account with a Disposition of Continue and a monthly payment (5% of the balance) added.

Alimony/Child Support

When the borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement the payments must be considered as a reduction to income, or part of the borrower's recurring monthly debt obligations.

Delinquent child support must be considered in the overall creditworthiness of the Veteran.

Debts and Obligations

Spousal support may be treated as a reduction in income on VA Form 26-6393. When considering support as a reduction to income in Octane, the total income used to qualify the Veteran must be reduced by the appropriate amount.

Child support payments are treated as a liability on VA Form 26-6393 and in Octane.

Documentation

The borrower must provide a copy of a divorce decree, separation agreement, order for support, or any other written legal agreement to verify required payments under the following circumstances:

- An alimony, child support, or separate maintenance obligation is listed on the loan application
- Documentation in the loan file suggests that alimony, child support, or separate maintenance obligation may be present

Acceptable sources of documentation include:

- A copy of the finalized divorce decree
- A copy of the separation agreement signed by a court official, recorded, and stamped by the court.
 - If the state law does not require a separation agreement, obtain a notarized letter from the attorney indicating the separation and any further legalities.

The Underwriter can request additional documentation verification when needed.

Bankruptcy

The fact that a bankruptcy exists in a Veteran's or their spouse's credit history does not in itself disqualify the transaction. The underwriter should obtain complete information on the facts and circumstances of the bankruptcy to allow the reasons for the bankruptcy and the type of bankruptcy filing be evaluated properly.

Chapter 7

If the bankruptcy was discharged more than 2 years ago from the Effective Note Date for purchases and refinances, it may be disregarded.

A Chapter 7 bankruptcy discharged within the last 12 months of the Effective Note Date is not permitted.

If the bankruptcy was discharged within the last 12 to 24 months from the Effective Note Date, *all* of the following requirements must be met to support the borrower or spouse are now a satisfactory risk:

- [Extenuating Circumstances](#) must be documented:

- Provide an explanation from the veteran developing complete information on the facts and circumstances of the bankruptcy
- The explanation and supporting documentation must demonstrate the bankruptcy was beyond the borrower’s control. Such occurrences can include job loss, unemployment, prolonged strikes, medical bills not covered by insurance, deployment or another extenuating circumstance
- **Note:** Divorce alone is not typically considered an extenuating circumstance; however, *the events surrounding the divorce* (e.g., illness, job loss, spousal support loss or temporary financial dislocation) may be reviewed if fully documented and verified
 - Credit has been re-established since the date of discharge; *and*
 - Re-established credit has been paid satisfactorily over a continued period

Extenuating Circumstances

Extenuating circumstances are nonrecurring or isolated events that are beyond the borrower’s control which result in a sudden, significant, and prolonged reduction in income, or a catastrophic increase in financial obligations.

Extenuating Circumstance	Examples	Documentation Required
Catastrophic Property Loss	Primary residence rendered uninhabitable due to uninsured damage, natural disaster, or environmental event	<ul style="list-style-type: none"> ● Local government or insurance report ● Contractor estimate ● Photos and proof of loss ● Insurance claim records ● FEMA or insurance documentation
Death of a wage earner	Death of a wage earner resulting in an inability to meet financial obligations	<ul style="list-style-type: none"> ● Death certificate
Employer Bankruptcy or Industry Collapse	Borrower’s employer bankruptcy or large-scale industry downturn causing job loss or income elimination	<ul style="list-style-type: none"> ● Public notice of employer bankruptcy ● Termination notice citing closure ● Industry reports confirming economic event
Employment Loss or Income	Plant or company closure,	<ul style="list-style-type: none"> ● Termination or layoff

Reduction	layoff, reduction in force, business failure due to external factors	<ul style="list-style-type: none"> ● notice ● Unemployment benefit records ● Employer letter confirming cause ● Business tax returns showing downturn
Government Closure, Prolonged Strike, or Labor Disruption	Involuntary strike or government shutdown resulting in extended income interruption	<ul style="list-style-type: none"> ● Union/employer statement ● Public record or news release verifying strike or government closure date(s)
Identity Theft or Fraud	Verified financial loss due to identity theft, fraud, or unauthorized account activity leading to delinquency	<ul style="list-style-type: none"> ● Police report ● FTC Identity Theft Report
Medical Hardship	Serious illness, injury, or disability affecting borrower or immediate family resulting in an inability to meet financial obligations; large uninsured medical expenses	<ul style="list-style-type: none"> ● Physician or hospital statement ● Copies of medical bills and insurance denials ● Evidence of disability leave, or leave of absence <p>Note: Documentation should not disclose the nature of any illness, injury or disability. Details related to specific medical conditions may not be requested or maintained in the loan file</p>
Military Deployment or Service Obligation	Activation or deployment causing financial hardship	<ul style="list-style-type: none"> ● Deployment or activation orders ● Commanding officer letter ● LES (Leave and Earnings Statement) showing change in pay ● PCS orders if relocation occurred

Bankruptcy Caused by Failure of a Self-Employed Borrower's Business

If the bankruptcy was caused by failure of the business of a self-employed borrower and not due to an extenuating circumstance, the transaction is ineligible unless all four of the following are met:

- The borrower obtained a permanent position after the business failed,
- There is not any derogatory credit information prior to the self-employment,
- There is not any derogatory credit information subsequent to the bankruptcy, and
- Failure of the business was not due to the borrower's misconduct

Chapter 13

If the borrower(s) has finished making all payments satisfactorily, the lender may conclude that the borrower has re-established satisfactory credit. If the Chapter 13 bankruptcy is still in repayment, then proof of no late payments within the last 12 months along with approval of the Bankruptcy Trustee to proceed with the VA transaction must be obtained.

A conversion of a Chapter 13 to a Chapter 7 must be considered according to the Chapter 7 bankruptcy guidance.

Chapter 13 Bankruptcy in Minnesota

Written Permission from the Bankruptcy Court permitting a borrower to enter into a new mortgage transaction is no longer provided in the state of Minnesota. For a Chapter 13 Bankruptcy not yet discharged, an amendment to the Bankruptcy to include the new mortgage debt is required. If an amendment is not provided, the bankruptcy must be discharged. Under no circumstances will VA issue an exception for obtaining written approval from the courts to enter into our transaction.

Chapter 11

VA does not address guidance for a Chapter 11 Bankruptcy. Refer to Chapter 13 Bankruptcy guidance above.

Chapter 12

VA does not address guidance for a Chapter 11 Bankruptcy. Refer to Chapter 13 Bankruptcy guidance above.

Business Debt in Borrower's Name

Business Debt in Borrower's Name

Business debt reported on the borrower's personal credit report must be included in the DTI calculation, unless the following can be documented to support the debt is paid by the business.

- The account in question must not have a history of delinquency, and
- The business provides acceptable evidence that the obligation was paid out of company funds as evidenced by:
 - Documentation of business payment of the liability for no less than six months preceding the VA Case Number Assignment date. Acceptable documentation includes:
 - Six months canceled checks or bank statements from the business account, or
 - Evidence payment was cashed or debited from the business bank account, or
 - Evidence the payment was transferred into a third-party money transfer application account that is owned by the business.
 - In all cases, documentation must support the funds used to pay the omitted debt came directly from the business account.
- The cash flow analysis of the business took payment of the obligation into consideration
 - The tax returns must evidence that business expenses associated with the debt (i.e. interest, lease payments, taxes, insurance) have been reported and support that the debt has been paid by the business

- A written statement prepared by a tax preparer, CPA, bookkeeper or other tax professional confirming payments are located within the applicable expense line on the tax return is required

Child Care Expenses

VA guaranteed loans must consider child care expenses as part of the borrower's recurring debt obligations and the evaluation of residual income. A childcare letter must be obtained for all children 12 years or younger and must include the cost of the child care.

Collateralized Loans

Certain types of loans secured against deposited funds (signature loans, cash value life insurance policies, 401K loans, etc.) in which repayment may be obtained through extinguishing the asset, do not require repayment consideration for loan qualification.

Assets securing these loans may not be included as an asset in the loan analysis.

Note: A 401(k) loan repayment reflected on the paystub does not need to be counted as a debt in the qualifying ratios.

Co-signor / Co-obligor on a Loan or Obligation

The borrower(s) may have a contingent liability based on co-signing a loan. This debt may be excluded from the monthly obligations factored into the net effective income calculation in the loan analysis if:

- There is evidence that the loan payments are being made by someone else,
- The obligation is current, and
- There is no reason to believe that the borrower will have to participate in repayment of the loan

Documentation

The following documentation is required to allow the omission of the debt:

- Evidence the other party making the payments is an obligor on the debt. This can be documented with a copy of the note or repayment agreement;
- The most recent 12 months' canceled checks (or bank statements) from the other party making the payment;
- Evidence the account has been paid satisfactorily for the most recent 12 months

Note: In the case of forbearance or deferment, if a payment has been deferred within the most recent 12 months, the obligation must be included in the borrower's DTI. Due to not meeting the required 12-month recent consecutive timely payments made by the other party, the monthly payment must be included even if the debt has been brought current and/or the forbearance canceled.

Consumer Credit Counseling

If the loan is approved through the AUS, the CCC has been considered and no further action is required. Whether the borrower has or has not completed his participation in the sessions before closing on the mortgage transaction is not relevant, as it is the borrower's credit history that is of primary importance.

If the loan is manually underwritten, documentation of the debt restructure is required along with proof of an acceptable 12 month repayment history and a letter from the service stating that the borrower can afford to incur the new housing expense along with their authorization.

Collections and Charged-off Accounts

The below guidance applies to both AUS Accept and Manually Underwritten loans.

<ul style="list-style-type: none"> ● Medical Collection Accounts ● Medical Charge-off Accounts 	<p>Identifiable medical collections are collection accounts that are established when an overdue medical bill is referred to a collection agency. Charge-offs may occur when a creditor is no longer pursuing repayment of the medical debt. Underwriters may disregard all identifiable medical collections, including charge-off accounts, that have not been reduced to a judgment or lien.</p> <p>Identifiable medical collection accounts that have not been reduced to a judgment or lien do not have to be paid off as a condition for loan approval and should not impact the overall acceptability of a borrower's credit. Underwriters do not need to obtain explanations for medical collections or charge-offs and do not need to otherwise address such accounts.</p>
<p>Collection Accounts (Non-Medical)</p>	<p>Isolated non-medical collection accounts do not necessarily have to be paid off as a condition for loan approval. A credit report may show numerous satisfactory accounts and one or two unpaid collections. In such instances, while it would be preferable to have collections paid, it would not necessarily be a requirement for loan approval.</p> <p>However, non-medical collection accounts must be considered part of the borrower's overall credit history and such accounts should be considered open, recent credit.</p> <p>These unpaid accounts must be considered in the debt-to- income ratio and residual income calculation on VA Form 26-6393, Loan Analysis, and when using an Automated Underwriting System (AUS):</p> <ul style="list-style-type: none"> ● If such accounts are listed on the credit report with a minimum payment, then the debt should be recognized at the minimum payment amount. ● Non-medical collection accounts without established payment arrangements are to be included with a calculated monthly payment using 5% of the outstanding balance of the collection. <p>Borrowers with a history of such accounts should have re-established satisfactory credit in order to be considered a satisfactory credit risk.</p> <p>The underwriter must address the existence of the account(s) with an explanation on VA Form 26- 6393, Loan Analysis, and justify why positive factors outweigh the negative credit history such accounts represent.</p>

Charge-off Accounts (Non-medical)	These accounts are typically collections in which the creditor is no longer pursuing collection of the account. The underwriter must address the circumstances regarding the negative credit history when reviewing the overall credit of the borrower(s). This does not apply to identifiable medical charge-offs, as described above.
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Federal Debt

Federal Tax Liens

The guidance below provides direction on the handling of delinquent federal taxes resulting in either a Federal Tax Lien or no Federal Tax Lien.

Delinquent Tax Liability - Prior Year's Tax Liability Resulting in Federal Tax Lien
<p>Delinquent tax liability refers to the prior year's tax liability. Taxes due in this case result from any amount owed to the IRS <i>after</i> the tax deadline for a particular tax year.</p> <ul style="list-style-type: none"> For example, 2024 is considered the most recent tax year; for purposes of determining Delinquent Tax Liability, 2023 is considered the prior tax year for applicability of the below guidance. For guidance related to Tax Filing Dates, refer to Chapter 2 Documentation Standards Tax Documentation Policy.
<p>Required Documentation:</p> <ul style="list-style-type: none"> Proof of payment in full of the prior year's tax liability (acceptable documentation includes a canceled check, bank statement, credit card statement, IRS Record of Account, or IRS printout supporting a zero balance), or IRS Installment Agreement <p>Additional requirements for Installment Agreement:</p>

- Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt and the borrower has made timely payments for at least three months of the scheduled payments.
- The borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.
- The payment amount in the agreement must be included in the calculation of the borrower's debt-to-income (DTI) ratio.
- Documentation from the IRS evidencing the repayment agreement and verification of payments made, if applicable, must be obtained

Public records and credit information must be checked to verify that the Borrower is not presently delinquent on any Federal Debt and does not have a tax lien placed against their Property for a debt owed to the federal government.

Non-Delinquent Tax Liability - Current Year's Tax Liability | Not Resulting in Tax Lien

Non- Delinquent Tax Liability refers to the current year's tax liability.

- For example, 2024 is considered the most recent tax year. For purposes of determining Non-Delinquent Tax Liability, 2024 is considered the current tax year for applicability of the below guidance.
- For guidance related to Tax Filing Dates, refer to [Chapter 2 Documentation Standards Tax Documentation Policy](#).

Borrowers who owe taxes that have NOT resulted in a lien status prior to closing are eligible for VA financing.

Required Documentation:

- Filed tax returns present with no tax transcripts available
 - Follow guidance in [Chapter 2 | Documentation Standards | Lending Guide](#) section 2024 Tax Transcript Not Available if income is being used to qualify
 - If current year income is not being used in qualification, no additional documentation is required to document the tax liability is paid, unless an IRS Installment Agreement is present. If present, follow the guidelines below.
- Filed tax returns and corresponding tax transcripts are both present
 - No documentation required to document tax liability is paid, unless:
 - The file contains evidence of an IRS Installment Agreement. If present, follow the guidelines below.

If the tax liability has resulted in a payment arrangement, the following must be provided:

- Income tax debt with a payment arrangement established
 - Document the approved arrangement plan,
 - Include the debt in the DTI, and
 - Document the payments have been made per the agreement.
 - A minimum of one (1) month payment documentation is required.
- Income debt with a newly established payment arrangement (no payments made)
 - Provide the approved arrangement or executed IRS Form 9465, and
 - Include the payment in the DTI
 - If no payment has been required prior to closing date, no documentation of payment history is required

Tax Extension | Non-Delinquent Tax Liability | Not Resulting in Tax Lien

- Tax Extensions are filed for the current tax year to obtain additional time to file the return.
- For example, 2024 is considered the most recent tax year. For purposes of determining Non-Delinquent Tax Liability, 2024 is considered the current tax year for applicability of the below guidance.

- For guidance related to Tax Filing Dates, refer to [Chapter 2 Documentation Standards Tax Documentation Policy](#).

Borrowers who owe taxes that have NOT resulted in a lien status prior to closing are eligible for VA financing.

Required Documentation:

- IRS Form 4868,
- Tax transcript showing “No Record of Return Filed”, and
- No documentation required to document Estimate of Total Tax Liability is paid, unless:
 - An IRS Installment Agreement is present. If present, follow the guidelines below.

If the tax liability has resulted in a payment arrangement, the following must be provided:

- Income tax debt with a payment arrangement established:
 - Document the approved arrangement plan,
 - Include the debt in the DTI, and
 - Document the payments have been made per the agreement.
 - A minimum of one (1) month payment documentation is required.
- Income debt with a newly established payment arrangement (no payments made):
 - Provide the approved arrangement or executed IRS Form 9465, and
 - Include the payment in the DTI
 - If no payment has been required prior to closing date, no documentation of payment history is required

Disputed Derogatory Credit Accounts

Disputed Derogatory Credit Accounts refer to disputed charge-off accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

- A letter of explanation from the borrower may be requested by the underwriter to determine any negative impact the disputed derogatory account may have on the borrower's ability to repay the loan
- If evidence is provided that the account is no longer in dispute, a new credit report must be provided and resubmitted with the AUS to allow assessment of the derogatory credit in the loan analysis

Disputed Derogatory Credit Accounts Exclusions

The following accounts can be excluded from consideration in the underwriting analysis:

- Medical accounts; and
- Disputed derogatory credit resulting from identity theft, credit card theft, or unauthorized use
 - The underwriter must request a copy of the police report, debtor identity theft report, credit reporting agency identity theft filing confirmation, or other documentation from the creditor to support the status of the accounts.

Forbearance

Active Forbearance

- If the subject mortgage, or any mortgage tied to other Real Estate Owned by the borrower, is in a forbearance status, the loan is ineligible for financing. Guidance applies regardless of the reason for the request of forbearance.
- Note: If a mortgage is currently in forbearance, but the borrower sells the property prior to our note date, the forbearance is considered satisfied.

Completed Forbearance

- If the subject mortgage, or any mortgage tied to other Real Estate Owned by the borrower, has had a forbearance that is completed, follow guidance found in [Housing History](#) and [Modified/Restructured Loans](#).

Canceled Forbearance

- If a forbearance action was taken and subsequently canceled, the transaction may be eligible subject to the following requirements:
 - Document all payments were made in the month owed and no outstanding payments are due;
 - Ensure forbearance agreement is provided;
 - Provide written confirmation from the lender that the forbearance has been canceled

Foreclosures / Deed-in-Lieu

A minimum of 2 years from the foreclosure (sheriff's) sale date to the Note date is required for a foreclosure or deed-in-lieu of foreclosure on AUS approved and manually underwritten transactions. The borrower's housing and installment loans must show no late payments since the foreclosure or deed-in-lieu. A detailed explanation must be obtained.

Exceptions may be allowed for a foreclosure or deed-in-lieu that is less than 2 years from the application date if the following requirements are met:

- The borrower must have obtained consumer items on credit subsequent to the foreclosure and has satisfactorily made the payments over a continued period, and
- The foreclosure was caused by circumstances beyond the control of the borrower(s) such as unemployment, prolonged strikes, medical bills not covered by insurance, and so on, and the circumstances are verified.
- In no case is a foreclosure sale less than 12 months.

If a foreclosure, deed-in-lieu, or short sale is in conjunction with a bankruptcy, use the latest date of either the discharge of the bankruptcy or transfer of title for the home to establish the beginning date of re-established credit. If there is a significant delay in the transfer of title, contact the RLC of jurisdiction for guidance.

If the prior foreclosure, deed-in-lieu, or short sale was on a VA-guaranteed loan, then a borrower may not have full entitlement available for the new loan. Ensure that the borrower's COE reflects sufficient

entitlement along with any additional down payment that may be necessary in order to meet the required 25% guaranty.

Foreclosure on Vacant Land

Foreclosure of a borrower's vacant land (property without a dwelling) is subject to the above foreclosure guidance.

Frozen Credit

All three repositories must be unfrozen.

Inquiries

All inquiries within the past 90 days must be addressed including the disposition of each inquiry.

Note: Credit inquiries reflecting on a non-borrowing spouse's credit report do not need to be addressed.

Housing History

Perform a manual downgrade to Refer for any mortgage debt with more than 1x30 day late payment(s) in the past 12 months. A written explanation from the borrower addressing the late payment history is required.

For manually underwritten loans, a 24-month rental housing history directly verified from the landlord, through a rating reflected on the credit report, or with canceled checks, is required.

- If borrower is living rent-free and loan is manually underwritten, a Rent-Free letter is required

Subject Property Mortgage Debt not in Borrower's Name

In some circumstances, a borrower may be on title to the subject property, but not on the existing mortgage and therefore, an acceptable mortgage rating is not required. If there is a derogatory payment history associated with the debt, a signed letter of explanation from the borrower addressing why the mortgage was not paid may be obtained.

Seasoning requirements applicable to the loan transaction must still be met, refer to the [Refinance Seasoning and Mortgage History](#) section.

Job Related Expenses

Job related expenses such as childcare, significant commuting costs, undisclosed debts on pay stubs, and unreimbursed business expenses must be included in the borrower's recurring monthly debt obligations.

Judgements

Any outstanding judgments on title must be paid prior to or at closing. Judgements not on title may be allowed to remain if proof of a repayment plan and timely payment for the most recent two months is provided. Payments may not be prepaid to meet this requirement.

This includes judgments of a non-purchasing spouse.

Loans Secured by Deposited Funds

Certain types of loans secured against deposited funds (signature loans, cash value life insurance policies, 401(k) loans, or other) in which repayment may be obtained through extinguishing the asset, do not require repayment consideration for loan qualification.

The assets required to secure a loan(s) may not be included as an asset on the VA Form 26-6393 Loan Analysis. Use the current balance times 60 percent minus the loan balance to equal the usable amount to consider as an asset. A statement would only be necessary to verify the amount used as an asset.

Modified/ Restructured Loans

Seasoning after a Loan Modification/Restructuring

When reviewing the payment history for any applicable seasoning requirements, refer to the [Refinance Seasoning and Mortgage History](#) section.

If the veteran has experienced a loan modification, the agreement or addendum may be required to verify terms of the restructured debt.

Mortgage Held in the Name of a Family Trust

When a property held in the name of a family trust is identified on the Fraud Report, additional due diligence must be performed to determine whether the related mortgage obligations are required to be included in the borrower's debt-to-income (DTI) ratio.

- If the borrower is personally obligated on any mortgage secured by the property, the associated debt and property-related obligations must be included in the DTI calculation.
- If the borrower is the grantor or creator of the trust, any mortgage debt secured by the property and any related property expenses must also be included in the DTI calculation.

Partial Claim

A partial claim defers the repayment of a first mortgage principal and creates a second mortgage for the deferred payment(s).

The [VA Partial Claim Payment \(VAPCP\)](#) was a temporary program intended to assist Veteran borrowers specifically impacted by the COVID-19 pandemic to resume making their regular (pre-COVID) mortgage payments after exiting forbearance. VAPCP was available from July 27, 2021 through October 28, 2022.

For purposes of meeting seasoning requirements, a Partial Claim is not considered under the same terms as a Loan Modification. A Partial Claim Note and Mortgage are executed with a Partial Claim, however the terms of the original loan are not modified with a standalone Partial Claim.

Paycheck Protection Program (PPP)

The PPP is a loan issued by Small Business Administration lenders under the CARES Act. These loans are designed to provide a direct incentive for small businesses to keep their workers on the payroll. The underwriter should apply due diligence and review the actions of the business and any impact the current situation has taken on the flow of income.

PPP loan terms allow deferred payments for a specified period, no personal loan guarantee, and the potential for the loan to be forgiven. If a self-employed borrower has taken out an SBA PPP loan under

the CARES Act, no payment, estimated or otherwise, need be included in the DTI or considered in the income calculation (e.g., as a deduction from income).

Payoff of Debt to Qualify

Payoff or paydown of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. A borrower who increases debt and then periodically uses refinance or debt consolidation to reduce payments to a manageable level presents a higher degree of risk.

- Revolving Debt
 - If the transaction is a manual underwrite, any revolving accounts being paid off to qualify must be closed.
 - A credit supplement must be provided PTA showing the revolving debt(s) closed.
 - The accounts can be paid off either prior to or at closing.
 - If the transaction is an AUS Accept, any revolving accounts being paid off to qualify do not need to be closed.
 - The accounts can be paid off either prior to or at closing.
 - Provide documentation to source the funds used to pay off the debt.
 - Verify that documentation has been provided to reflect the balance being paid off. Options include:
 - Debtor statements / printouts or other documents that outline the current balance, account number, and mailing address for the payoff funds; or
 - Credit supplements that also provide the mailing address for the payoff funds; or

- Credit report along with other documentation providing the mailing address for the payoff funds; or
 - Loan Quality Initiative Report; use this option with caution. When this report is used to provide an updated balance for one or more liabilities being paid in full, it will reveal current balances for all liabilities. The updated balance for **each** liability referenced on the LQI report must be updated in Octane.
- Installment Accounts
 - The accounts can be paid off either prior to or at closing.
 - Provide documentation to source the funds used to pay off the debt.
 - A payoff statement is required to reflect the balance being paid off.
 - HELOC
 - If paid off prior to closing, provide a credit supplement showing the debt closed.
 - If paid off at closing, provide a close out letter sent to the escrow/title company.
 - Provide documentation to source the funds used to pay off the debt.

If the seller is willing to pay off borrower's debt (revolving or installment) to qualify, the following apply:

- Total amount of debt to be paid by the seller must be part of the seller concession not to exceed 4%
- A Payoff statement must be provided by the creditor
- If the transaction is a manual underwrite, any revolving accounts being paid off must be closed.
- The payoff of the debt must be reflected on the closing disclosure

Short Sales

A minimum of 2 years from transfer of title is required.

Exceptions may be allowed if the borrower can document an extenuating circumstance and the borrower had no delinquency in the 12 months prior to the short sale.

Short-Term Debt Obligations

The file should be analyzed for debts incurred from short-term (buy now/ pay later) plans such as Klarna, Affirm, or Afterpay. When such plans are identified, either through disclosure by the borrower or from loan file documentation, repayment should be treated similarly to other traditional short-term installment obligations. Refer to [Undisclosed Obligations](#) for additional information.

Documentation outlining the terms of repayment should be obtained; if the debt appears to be a long term debt, either revolving or installment, the payment must be included in the debt to income ratios.

If the repayment option is for a term of 10 months or less, the payment may be excluded if the payment does not exceed two percent of the total effective income and the balance will be paid in full within the 10 months; refer to [Significant Debt](#) for additional guidance on the omission of debt. Installment debt with less than 10 months remaining may need to be considered as recurring monthly debt obligation if it significantly affects the borrower's ability to meet their credit obligations.

Significant Debt

Any debt that will have a significant impact on the veteran-borrower's ability to meet their standard family living expenses must be included in calculating the debt ratio. A significant debt is defined as any debt that exceeds 2% of the total effective income used to qualify.

An installment debt with fewer than 10 monthly payments remaining also should be considered as a recurring monthly debt obligation if the payment exceeds 2% of the total effective income used to qualify.

Cardinal may allow the exclusion of significant debt if there are sufficient reserves to ensure repayment of the debt.

Note: When including an installment debt with payments less than 10 months remaining, the Months Left field in the Credit > Liabilities screen must be manually changed to greater than 10 months to ensure the monthly payment is captured in the qualifying ratios.

Student Loans

If the borrower provides written evidence that a student loan debt will be deferred for at least 12 months beyond the date of closing, a monthly payment does not need to be considered.

If a student loan is in repayment, or scheduled to begin within 12 months from the date of the loan closing, the anticipated monthly obligation must be considered in the loan analysis and utilize the payment established by calculating each loan at a rate of 5% of the outstanding balance divided by 12 months.

- Example: A borrower has a \$25,000 student loan balance; multiple by 5% = \$1250 / 12 = a monthly payment of \$104.17.

If the payment reported on the credit report for each student loan is greater than the threshold payment calculation above, the credit report payment must be used.

If the payment(s) reported on the credit report is less than the threshold payment calculation above, in order to count the lower payment, the loan file must contain a statement from the student loan servicer that reflects the actual loan terms and payment information for each student loan(s). This statement must be dated within 60 days of the loan closing and may be an electronic copy from the student loan servicer's website or a printed statement provided by the student loan servicer.

Timeshare

A Timeshare account may be treated as an Installment loan when assessing credit. Any maintenance fees associated with a Timeshare property must be included in the borrower's debt-to-income ratios.

Transfer of Servicing on Existing Mortgage

There are times when a mortgage has been transferred to a new servicer, but the credit report is still showing a balance with the prior lender. When this occurs, the following documentation can be provided to support the transfer and acceptable payment history with the new servicer:

- A credit supplement showing the mortgage on credit has been closed with a zero balance and an updated rating with the new servicer, or
- A transfer letter from the new servicer and evidence that the mortgage has been paid satisfactorily since the transfer of servicing.

Non-Traditional Credit

Tradeline Requirements

Cardinal will allow borrowers without credit scores to qualify using alternative credit references. To qualify for financing the borrower(s) must demonstrate an acceptable credit history of timely payments for at least the past twenty-four (24) months for housing history and past twelve (12) months for other types of credit and must meet the following qualifications.

The following outlines the requirements for obtaining financing with no credit score.

Housing History

The borrower's housing history must always be verified and may not exhibit any delinquency in the last twenty-four (24) months. Provide one of the following to document an acceptable history:

- 24 months canceled checks (required if renting from a private landlord or family);
- A Verification of Rent from a professional management company; or
- If the borrower lives "rent free", a letter of explanation is required

Tier 1 References

- Cardinal requires verification from two (2) of the following utilities, three (3) if the borrower lives "rent free"

- Utilities included in the borrower's rental payment are not acceptable references
- The borrower's history may not show more than one (1) 30-day delinquency on all references

Verification of the payment of:

- Gas service
- Electricity service
- Water bill
- Cell phone or landline phone bill
- Television Service Providers
 - Non-traditional television service providers, such as Netflix, Disney+, Hulu, YouTube TV, Sling, or similar services
 - Traditional cable television providers, such as Comcast, Cox, Spectrum, Xfinity, or similar providers
 - Traditional satellite television providers, such as DIRECTV and DISH Network
- Internet Service Providers
 - National and regional internet service providers include, but are not limited to, companies such as Comcast/Xfinity, Spectrum, Mediacom, Optimum, Astound Broadband, WOW!, Breezeline, or similar regional or municipal internet service providers
 - Satellite internet service providers include, but are not limited to, Viasat, HughesNet, and Starlink
 - Wireless internet service providers include, but are not limited to, Verizon 5G Home, T-Mobile Home Internet, and AT&T Internet Air

If the borrower cannot provide a housing history or at least one (1) Tier one reference, the borrower's credit history is insufficient and the loan request will be denied for an insufficient credit history.

Tier 2 References

If the borrower cannot provide sufficient Tier 1 references, then verification of four (4) of the following Tier 2 references are required. The borrower's history may not show more than one (1) 30-day delinquency on all references.

- Insurance Coverage – Auto, Life, Medical or Renters
 - Payment through an employer on a paystub will not be counted as a reference
- Child care payments
- School tuition
- Retail stores
 - Layaway accounts are not acceptable
- Storage unit payments
- Auto loans or leases
- A history of regular saving deposits accompanied by proof of no Non Sufficient Fund transactions from the borrower's checking account

Acceptable Forms for Verification of Non-Traditional Credit

The use of non-traditional credit is permitted on Purchase transactions only.

Non Traditional Mortgage Credit Report

A Non Traditional Mortgage Credit Report (NTMCR) from a credit reporting agency is an acceptable method of verifying a borrower's non-traditional credit history if the report meets the following requirements:

- The existence of the credit providers
- That credit was actually extended to the borrower; and

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- Verification of the creditor's published address or telephone number
 - The NTMCR must be formatted similar to a traditional credit report and must provide the following:
 - Creditor's name
 - Type of account
 - Date the account was opened
 - High credit amount
 - Current status of the account
 - Monthly payment
 - Unpaid balance
 - Payment history (for example 0x30, 0x60)
 - A payment history listed as satisfactory or acceptable is not permitted.

Credit References

In lieu of obtaining a Non Traditional Mortgage Credit Report (NTMCR) Cardinal will accept credit references directly from the borrower's creditors. If the creditor is an individual then twelve (12) months canceled checks are required to verify the history.

References from businesses require a written verification containing:

- Creditor's name
- Creditor's address
- Creditor's phone number
- Type of account

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- Date the account was opened
 - High credit amount
 - Current status of the account
 - Monthly payment
 - Unpaid balance
 - Payment history (for example 0x30, 0x60)
 - A payment history listed as satisfactory or acceptable is not permitted.

Independent verification of the business address and phone number is required.

Derogatory Credit History

Borrowers who do not have a credit score due to past derogatory credit histories are not eligible for financing.

Borrowers may not have any collection, charge-offs or judgements filed in the last twelve (12) months.

Additional Requirements

In addition to the loan program requirements, Cardinal requires the following:

- The property must be a 1-unit, principal residence, and all borrowers must occupy the property,
- Two months of reserves,
- Gift funds may not be used to satisfy the reserve requirement,
- High balance loans are not eligible

Community Property States

Debts of the Non-Borrowing Spouse

If the subject property is located in a community property state, the debts of the non-purchasing spouse must be considered in the borrower's recurring monthly obligations and the residual income calculation. For debts such as judgements and unpaid collections, the underwriter must consider the Veteran's capacity to address the debt. If a collection account is listed on the credit report with a minimum payment, then the debt should be recognized at the minimum payment amount.

Obligations that are specifically excluded by state law do not need to be counted if satisfactory documentation to exclude the debt is provided. Any judgments, liens, or other delinquent credit that would compromise Cardinal's first lien position must be paid off prior to closing.

The monthly obligations belonging to the non-borrowing spouse may be excluded from the loan analysis when a reliable source of income for the spouse is verified and in an amount sufficient to offset the reported monthly payments; the income source must be voluntarily provided.

Refer to the [Collections and Delinquent Accounts](#) section for additional information.

Documentation

- A recent Year-to-Date Paystub and W2, or a recent Year-to-Date Paystub and written VOE are required
- VA Form 26-6393 Loan Analysis must be documented with an explanation of facts and determination when excluding obligations of the non-purchasing spouse

Social Security Number

If the non-purchasing spouse does not have a SSN, a credit report from an acceptable credit report provider is still required. Where a SSN does not exist for a non-borrowing spouse, the credit report must contain, at a minimum, the following information for the non-borrowing spouse:

- Full name
- Date of birth
- Previous addresses for the last two years

Octane, Cardinal's Loan Origination Software, calculates when credit reports are required here: [Calc | Credit Required](#)

CAIVRS

CAIVRS is not required for non-purchasing spouses in a community property state.

Conversion of Primary Residence

Conversion of a Primary Residence to Second Home

If the Veteran is retaining his current primary residence as a second home, the location of the new primary residence must make sense, e.g. relocation to a new base, job, etc. with the old property located a considerable proximity from the new location.

The Veteran must qualify with the monthly housing expenses for both the departing residence and the subject transaction.

Conversion of a Primary Residence to Rental Property

If the Veteran is retaining his current residence as a rental property, rental income may be used to offset the payment only. Refer to Rental Income - [Departure Residence](#) for additional details.

Pending Sale of Real Estate

If the borrower's current principal residence is pending sale, but the transaction will not close with the title transferring to the new owner prior to the subject transaction, and the borrower is purchasing a new principal residence, the current PITIA and the proposed PITIA must be used in qualifying the borrower for the new mortgage loan.

Undisclosed Obligations

Undisclosed debt is defined as any loan or liability (e.g., auto, revolving, installment, mortgage, or lease) that exists at the time the borrower closes on the subject loan and is not disclosed by the borrower during origination. Obligations to be considered as possible recurring debts and included in the DTI calculation may be identified on sources including, but not limited to:

- Credit report
- Bank account statements
- Loan Application
- Pay stubs
- Fraud Report

All discrepancies must be resolved prior to final approval. If a possible undisclosed obligation is discovered, additional documentation must be provided to support if there is an additional obligation to include in the DTI.

Examples of undisclosed obligations:

- Tax liabilities or payments
- Court ordered obligations for alimony, child support or separate maintenance
- Allotments that appear on the pay stub or Leave and Earnings Statement
- Payments on bank statement to a creditor that is not listed on the credit report
- Debts incurred from short term installment plans (Buy Now/Pay Later) such as After Pay, Klarna, Affirm, Quadpay, Sezzle, Paypal Credit, Splitit, Zip Pay, Lay Buy, Open Pay, Uplift, Upgrade, Apple Pay Later, Bread Pay SplitPay, Bread Pay, Chase Pay in Four, and Four that show as debits on the bank statement
 - Some Buy Now/Pay Later programs offer repayment terms extending beyond 10 months. In these cases, documentation is required to verify the payment terms.
 - Examples of programs with repayment terms that do not extend beyond 10 months, and therefore do not require additional explanation or documentation, include:
 - Apple Pay Later
 - Zip
 - Bread Pay SplitPay
 - Chase Pay in 4
 - Four

Any suspected undisclosed liability must be explained and documented.

Disaster Re-Inspections

Follow the directive in the [Natural Disaster Operations Policy](#) for information on inspection requirements for affected properties.

VA Guaranty Eligibility

Loans closed and funded prior to the disaster are eligible for a VA guaranty without regard to the disaster.

For loans in process that have not funded where the property was appraised on or before the disaster date, the following certifications are required:

Lender Certification must be signed and dated by a Cardinal underwriter:

“This is to affirm that the property which is security for VA loan number _____ has been inspected to ensure that it was either not damaged in the recent disaster or has been restored to its pre-disaster condition, or better.”

Veteran Certification signed and dated by the veteran:

“I have inspected the property located at _____ and find its condition now to be acceptable to me. I understand that I will not be charged for any disaster-related expenses, and now wish to close the loan.” (for purchase transactions).

Escrow Holdbacks

The [Requesting a Loan Exception Review](#) process in Octane is used for submission of the Escrow Holdback request. Full eligibility guidelines are included in [Chapter 2 | Documentation Standards | Lending Guide](#).

Eligible Properties

Must be primarily residential in nature based on the characteristics of the property and its market area.

- Safe, sound, and structurally secure
- Adequately insured per Cardinal's guidelines for property and flood insurance
- The highest and best use of the property as improved (or as proposed per plans and specifications), and the use of the property must be legal or legal non-conforming use
- Readily accessible by roads that meet local standards
- Served by utilities that meet community standards
- Suitable for year-round use

The property may be one of the following property types:

- Single Family Residences either attached or detached
- PUD either attached or detached
- 2-4 Unit Properties
- VA Approved Condominiums
 - Projects must be VA approved and possess a condo identification number with VA unless family they were approved by HUD/FHA/USDA PRIOR to December 7, 2009
- Manufactured Housing
 - Home must be permanently affixed to the lot and considered real estate under state law
 - Double or single wide homes are eligible
 - Minimum size
 - Double wide 700 sq. ft.
 - Single wide 400 sq. ft.

All properties must meet the VA guidelines for the applicable property type.

Ineligible Properties

The following property types are ineligible:

- Properties that are not residential in nature based on the characteristics of the dwelling or market area
- Properties that do not meet the VA's minimum property standards
- Leasehold Condo
- Properties located in Airport Noise Zone 3
- Condominiums that are not VA approved
- PUD's that do not meet VA requirements
- Manufactured homes not classified as real estate
- Properties in Lava Zones 1 and 2 are not eligible
- Boarding houses
- Bed and Breakfast properties
- Properties that are not suitable for year-round occupancy regardless of location
- Agricultural properties, such as farms or ranches
- Properties that are not readily accessible by roads that meet local standards
- Vacant land or land development properties
- Properties encumbered with Property Assessed Clean Energy (PACE) or Home Energy Renovation Opportunity (HERO) obligations
- State-approved medical marijuana producing properties
- Properties with more than one unit where one or more of the units is a manufactured home—unless meeting [Accessory Dwelling Unit](#) requirements

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- Properties located on Tribal Lands which include section 184
 - Properties located in the Department of Hawaiian Home Lands Leasehold (DHHL)
 - Community Land Trusts or Blind Trusts
 - Lot size over 40 acres in the state of Montana (state restriction)
 - Mixed-use properties with less than 51% of entire building square footage designated for residential use

Employment/Income Verification

Tax Transcripts

All borrowers must execute a 4506-C prior to loan approval.

VA loans do not require W-2 or 1099 transcripts for:

- Wage-earner borrowers,
- Non-employed borrowers (e.g., fixed income documented with an award letter), and
- Borrowers with commission income (regardless of percentage of qualifying income)

Handwritten income documentation will still require tax transcripts. Underwriters may request a tax transcript on any file at their discretion.

Tax transcripts are required to be obtained for all borrowers with income from:

- Self-Employment income requires a transcript of the borrowers personal Federal Tax returns,
- Borrowers with Partnership, Corporate, S Corporation and/or Limited Liability Company income require transcripts on both the borrower's personal Federal Tax returns and the borrower's business returns if the income is used to qualify,
- When rental Income is documented on the borrower's Schedule E of their personal tax returns,

- Family employment,
- Fixed income types such as disability, social security, retirement, child support, alimony, etc. when the 1040s are obtained in lieu of alternative documentation, e.g., award letter, 1099, bank statements, etc.,
- Allowances for BAS/BAH and VA Disability income verified through a Certificate of Eligibility (COE) may be grossed up without tax returns. Any other income, which could be subject to taxation, should be validated with tax returns and transcripts to determine the percentage at which the income may be adjusted “grossed up” for qualifying purposes

Refer to the Tax Documentation Policy located in [Chapter 2 | Documentation Standards](#) for additional guidance on the requirements and dates for W-2, tax returns, amended tax returns, and transcripts.

Effective Income

Income is considered effective when it is determined to be verifiable, stable and reliable, and anticipated to continue for the foreseeable future. To determine whether income is stable and reliable, the probability of continued employment must be determined through examination of the:

- Borrower’s past employment record,
- Borrower’s training, education, and qualifications for his or her current position, and/or
- Type of employment

Only verified income can be considered in the repayment calculation.

Do not include temporary income items such as VA educational allowances (including the Post 9/11 GI Bill benefit) in effective income.

AUS Income Documentation

AUS Income Documentation		
Documentation	AUS Approve/Accept	AUS Refer
Alimony/Child Support/ Separate Maintenance	<ul style="list-style-type: none"> ● Most recent three (3) months bank statements to document receipt ● Divorce decree - front page and all applicable pages that detail the support payments and support continuance for three (3) years 	<ul style="list-style-type: none"> ● Most recent three (3) months bank statements to document receipt ● Divorce decree - front page and all applicable pages that detail the support payments and support continuance for three (3) years
Commissioned Borrowers	<ul style="list-style-type: none"> ● Written VOE detailing: <ul style="list-style-type: none"> ○ YTD paid commissions ○ Basis for payment ○ When commissions are paid ● Most recent two (2) years signed personal tax returns with all applicable schedules and statements where required to account for any related 2106 Expense deduction 	<ul style="list-style-type: none"> ● Written VOE detailing: <ul style="list-style-type: none"> ○ YTD paid commissions ○ Basis for payment ○ When commissions are paid ● Most recent two (2) years signed personal tax returns with all applicable schedules and statements where required to account for any related 2106 Expense deduction
Current Employment	<ul style="list-style-type: none"> ● Verbal VOE through a third party ● Most recent pay stub covering at least one (1) full month of employment including <ul style="list-style-type: none"> ○ YTD information ○ Bonus information ○ Overtime information 	<ul style="list-style-type: none"> ● Verbal VOE through a third party ● Most recent pay stub covering at least one (1) full month of employment including <ul style="list-style-type: none"> ○ YTD information ○ Bonus information ○ Overtime information
Gaps in Employment	<ul style="list-style-type: none"> ● No explanation for employment gaps is required if gaps are <60 days 	<ul style="list-style-type: none"> ● No explanation for employment gaps is required if the gaps are <30 days.
Previous Employment	<ul style="list-style-type: none"> ● No VOE is required if the borrower has been at their current job for one (1) year and W-2 forms for previous year have been collected 	Use a VOE or any of the following, covering the 2-year period prior to closing: <ul style="list-style-type: none"> ● W-2 Forms, or

	<ul style="list-style-type: none"> ● No W-2's are required for active duty borrowers ● No W-2's are required if all of the following are met: <ul style="list-style-type: none"> ○ Borrower is with the same employer greater than 2 years ○ Verbal VOE verifies the length of employment and that the borrower is still employed ○ The qualifying income is only base pay and does not show bonus, overtime, secondary income ○ The borrower is not self-employed or commissioned ○ Borrower signs one of the following for the previous 2 tax years: <ul style="list-style-type: none"> ■ Form 8821, and ■ Form 4506 	<ul style="list-style-type: none"> ● Income information obtained from the IRS via one of the following forms: <ul style="list-style-type: none"> ○ Form 8821, Tax Information Authorization, (or alternate form acceptable to the IRS that collects comparable information) or ○ Form 4506, Request for Copy of Tax Return, (or alternate form acceptable to the IRS that collects comparable information) ● No VOE or W-2 Forms are required for a borrower on active duty ● The Leave and Earning Statement (LES) should be used.
De Minimis Self-Employment	If self-employment is less than 5% of the borrower's total monthly qualifying income, the self-employment income is not considered in qualifying and does not need to be documented	If self-employment is less than 5% of the borrower's total monthly qualifying income, the self-employment income is not considered in qualifying and does not need to be documented
Self-Employed Personal Returns	Most recent two (2) years signed personal tax returns with all applicable schedules and statements	Most recent two (2) years signed personal tax returns with all applicable schedules and statements
Self-Employed Profit and Loss Statements and Balance Sheets	No balance sheet or YTD P&L is required	No balance sheet or YTD Profit and Loss (YTD P&L) is required if origination date is <= 7 months from the business' fiscal year end (for which tax returns or information from the IRS via Form 8821 or Form 4506 were provided)
Self-Employed Business Returns	No business returns are required if all of the following are met:	Obtain the most recent two (2) years business tax returns with all schedules

	<ul style="list-style-type: none"> ● Borrower has documented ownership of the business for at least five (5) years ● Business funds are not being used for closing costs and/or down payment ● Business structure has not changed in the past five (5) years ● Individual tax returns reflect consistent income for the past two years 	
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Active Duty Military

If the borrower's active duty release date or the end of the contract term is within 12 months of the closing date, obtain any of the following:

- Document re-enlistment date beyond the 12-month period from the closing
- A statement from the service member that he/she intends to reenlist or extend his/her period of active duty to date beyond the 12-month period plus a statement from his/her commanding officer confirming the service member is eligible to reenlist or extend his/her active duty and that there is no reason reenlistment or extension of active duty will not be granted.
- Verification of a valid offer of local civilian employment following the release from active duty

Allowances on LES

A Leave and Earnings Statement (LES) dated 120 days prior to the Note date is required.

Basic Allowances

Non-taxable basic allowances may be used as qualifying income such as quarters (BAH), subsistence (BAS), and clothing.

BAH can be verified with the Form Status of Housing Availability/DD Form 1747 which confirms that the borrower will not have housing accommodations available and that the borrower has authorization to secure non-military housing. Other documentation may be acceptable to adequately document the acceptability of this income.

Allowances for BAS/BAH and VA Disability income verified through a Certificate of Eligibility (COE) may be grossed up without tax returns.

Flight Pay, Overseas Pay, Combat Pay

Other taxable allowances that may be used as qualifying income include: flight, hazard pay, pro-pay, overseas pay, and combat pay. These sources may be used as qualifying income if the amount and a history of receipt can be documented along with verification that the continuance is consistent with the nature of the service member's duties (e.g. flight pay for a pilot).

Cost of Living Allowance (COLA)

Cost of Living Allowances are paid to service members to partially offset high costs when stationed overseas (including Alaska and Hawaii). COLA is only provided when it is determined that the cost of living in the area in which the borrower is assigned is more than the average area in CONUS. COLA, when received in Alaska and Hawaii, is considered non-taxable allowances and may be used as qualifying income if the amount of COLA and its continuance can be verified for at least 12 months from the closing date of the loan. The continuance of the COLA can be verified through military orders or by reviewing the military leave statement and specifically identify the value in Block 6, ETS, which is the expiration of the current contract or enlistment and will identify how long the borrower is assigned to the duty station for work forecasting the continuance of the COLA and be written YYMMDD.

Voluntary Separation (VSI)

Voluntary Separation Incentives (VSI) are paid annually and are taxable in the year of receipt. VSI payments may be used as qualifying income. The term of the payment period is calculated by multiplying the service member's years of service times two.

Location of Employer

If the Fraud Report reflects the distance between the borrower's place of employment and their primary residence as within an unreasonable commuting distance, supporting documentation addressing the borrower's ability to commute must be provided.

If the borrower is working remotely, support for the ability to work in this capacity must be provided in accordance with the below guidance (applicable for Purchase transactions only):

- Regardless of time on their current job, written confirmation directly from the employer addressing the ability to work remotely must be obtained

Borrower Relocating with the Same Employer

When the borrower is relocating to a different area while remaining employed with the same employer, the stability and continuance of the income must be supported.

Verification from the employer must be provided to support the borrower will remain employed in the same capacity without a change to income or pay structure. If there will be a change in the borrower's income or pay structure, documentation addressing the change must be provided directly from the employer; further analysis may be performed by the underwriter and additional conditions may apply.

The employer must also confirm the location of the new place of employment and address any interruption to employment, if applicable.

Length of Employment

Borrower Employed for Less than 12 Months

Generally, employment less than 12 months is not considered stable and reliable. However, the underwriter may consider the employment stable and reliable if the facts and documentation warrant such a conclusion.

Determine whether the borrower's past employment, training, and/or education equipped him or her with particular skills that relate directly to the duties of their current position. If the probability of continued employment is high based on these factors, the income may be considered in the total effective income. An explanation of why income of less than 12 months duration was used must be documented on the VA 26-6393, Loan Analysis.

If the probability of continued employment is good, but not well supported, the underwriter may utilize the income to partially offset debts of 6 to 24 months duration, if the borrower has been employed for a minimum of 12 months. An explanation of why income was used to offset debts must be documented on the VA 26-6393, Loan Analysis.

Newly Employed Borrower

For borrowers who have recently started employment with a new employer and have been on the new job less than 6 months, the below requirements apply. Borrowers changing from 1099 or self-employment to a W-2 position must also adhere to this guidance.

In addition to AUS requirements, the following must be provided:

- A Standard Verification of Employment (VOE) with income from TheWorkNumber, or
- Documentation reflecting the borrower has enrolled in direct deposit with the new employer and evidence to show the receipt and regular deposit of the net pay from the paystubs
- Note: if either of the above requirements can be met, the underwriter may review and approve the income without an exception request.

If a Standard VOE from TheWorkNumber cannot be obtained, or if the borrower has not enrolled in direct deposit with the new employer, the following documentation must be provided:

- Provide documentation from the employer showing payroll dates, and
- Provide copies of paystubs* for six months, and
- Provide actual bank statements for the 6 month time period to show the receipt and regular deposit of the net pay from the pay stubs. Deposit dates must coincide with payroll dates as documented above.

If the borrower has been on the job less than six months and a Standard VOE from TheWorkNumber cannot be obtained, or if the borrower has not enrolled in direct deposit with the new employer, an exception request may be submitted to the Credit Committee for review.

Note: These guidelines may not apply to a [Seasonal Income / Seasonal Unemployment](#) and [Unemployment Benefits](#) and [Union Employee\(s\)](#) worker whose employment typically changes periodically.

*Pay stubs from the employer should show standard payroll deductions as required by law. Deductions include but are not limited to:

-
- Federal Income Tax
 - State Income Tax
 - Social Security (FICA)
 - Medicare Tax (FICA)
 - Insurance Policies
 - Retirement

Recent History of Frequent Changes of Employment

Short-term employment in a present position combined with frequent changes of employment in the recent past requires special consideration to determine stability of income.

The underwriter must analyze the reasons for the changes in employment. Favorable consideration may be given to changes for the purpose of career advancement in the same or related field. Favorable consideration may not be possible for changes with no apparent betterment to the borrower and/or changes from one line of work to another.

If the underwriter includes the borrower's income, an explanation of why income of short-term employment was used and must be documented on VA Form 26-6393, Loan Analysis.

Borrower Converting from 1099 to W-2 With Same Employer

If a borrower has previously been working for an employer being paid on a 1099 but converts to a W-2 wage earner, the following additional documentation is required:

- W-2 wages must have been received for a minimum of 6 months as documented with 6 months complete pay stubs, and
- Provide actual bank statements for the 6 month time period to show the receipt and deposit of the net pay from the pay stubs.
- Exceptions to the full 6 month time frame may be granted for some professions; submit a Credit Committee ticket for full review.

Projected Income

VA does not have specific guidelines regarding projected income. Cardinal will apply the following logic when determining the acceptability of projected income.

- Projected income is acceptable for a borrower scheduled to start a new job within sixty (60) days of loan closing if there is a fully executed, guaranteed, non-revocable contract for employment.
- The contract should define pertinent employment details including start date, salary, and any contingencies. If any contingencies are noted, they must be cleared prior to closing.
- Must verify that the borrower will have sufficient income or cash reserves to support the mortgage payment and any other obligations between the loan closing and the start of the new employment.
- Verbal VOE at time of closing must note that there are no changes to the employment contract.

Note: A paystub will not need to be obtained prior to loan delivery.

Projected Income from Commission Earnings

Projected income from commission may be considered if the requirements for [Commission Income](#), along with the above guidance, can be met. The projected income from this source must be guaranteed in writing from the borrower's employer.

To permit the use of these earnings, a request must be submitted to Credit Committee for approval.

Auto Allowances

Generally, automobile allowances are paid to cover specific expenses related to a borrower's employment, and it is appropriate to use such income to offset a corresponding car payment. However, if the borrower reports an allowance as part of monthly qualifying income, it must be determined if the automobile expense reported on IRS Form 1040, Schedule C, or IRS [Form 2106](#) (for certain service members) should be deducted from income or treated as a liability.

Documentation Required

There are two methods of assessing the borrower's automobile allowance, the [Actual Cash Flow Approach](#) or the [Income and Debt Approach](#).

The following documentation is required:

- A Written Verification of Employment evidencing the amount and the likelihood of continuance
- The borrower's most recent pay-stub showing the automobile allowance and the amount

Actual Cash Flow Approach

If an automobile allowance is reported:

- And the automobile allowance is larger than the borrower's actual monthly expenditure, the excess amount is added to income
- And the automobile allowance does not cover all the borrower's actual expense, the remaining amount is included in the borrower's total monthly obligations
- If the borrower used IRS [Form 2106](#) and recognized "actual expenses" instead of the "standard mileage rate," the lender must look at the "actual expenses" section to identify the borrower's actual payments and make appropriate adjustments.
 - Automobile depreciation claimed on IRS [Form 2106](#) should be netted out of this calculation.

Income and Debt Approach

If the borrower does not report the allowance:

- The full amount of the allowance is added to the borrower's monthly income,
- The full amount of the lease or financing expenditure for the automobile is added to the borrower's total monthly obligations.

2106 Expense

Form 2106 must be used for Armed Forces reservists, a qualified performing artist, or a fee-basis (contract) state or local government official when there are unreimbursed business expenses and the borrower has claimed job-related vehicle, travel, transportation, meals or entertainment expenses.

Unreimbursed business expenses reported on Form 2106 that are from a non-borrowing spouse do not need to be subtracted from the borrower's income as long as the non-borrowing spouse's wages reported on the Form 1040 are sufficient to offset the expenses. All other non-borrowing spouse's losses, including Schedule E losses, must be subtracted from the borrower's income

Alimony, Child Support and Maintenance Payments

Verify the income if the borrower wants it to be considered. The payments must be likely to continue for at least 3 years from the Note date to include them in effective income.

Factors used to determine whether the payments will continue include, but are not limited to:

- Whether the payments are received pursuant to a written agreement or court decree,
- The length of time the payments have been received,
- The regularity of receipt, and
- The availability of procedures to compel payment

Refer to AUS Income Documentation for documentation requirements.

Continuance of Child Support

Documentation may not always provide for a defined end date for the receipt of child support income. Although laws vary from state to state, the following guidance may be applied in most cases.

Unless a minor is emancipated, child support typically continues until the child is 18 years of age (or has reached the age of majority), or has completed high school, whichever is later. In some cases, the court may order child support to continue after age 18 for a disabled child who remains a dependent.

Commission Income

Documentation

Verify commission income by obtaining the WVOE, or other written verification which provides the following:

- The actual amount of commissions paid year-to-date,
- The basis for payments (salary plus commission, straight commission, or draws against commission, or other), and
- When commissions are paid: bi-weekly, monthly, quarterly, semiannually, annually, or other

[IRS Form 2106](#) must be filed for Armed Forces reservists, a qualified performing artist, or a fee-basis (contract) state or local government official when there are unreimbursed business expenses and the borrower has claimed job-related vehicle, travel, transportation, meals or entertainment expenses.

When the borrower is employed in one of the above occupations, and commission income totalling 25% or more of the qualifying income is present, the underwriter will add the Octane Borrower tag for Personal Tax Returns for the previous two years. Upon receipt, the underwriter must perform an analysis of the potential 2106 expense; refer to the [Income Calculation](#) section below.

Refer to the [2106 Expense](#) section for additional guidance on when IRS Form 2106 must be filed.

Analysis of Income Derived from Commissions

Income from commissions is considered stable when the borrower has obtained such income for at least 2 years. Employment for less than 2 years typically cannot be considered stable unless the borrower has had previous related employment and/or specialized training.

If the borrower has recently changed employers and is being paid on a commission basis, the borrower's history of earnings must be analyzed to support that the income has been received from a similar source and will continue in the same capacity. An average of past earnings in determining qualifying income may be prudent. To permit the use of these earnings, a request must be submitted to Credit Committee for approval.

Employment of less than 1 year can rarely qualify; however, in-depth development is required for a conclusion of stable income on less than 1 year cases.

Income Calculation

- For a borrower who will qualify using commission income of less than 25 percent of the total annual employment income, [IRS Form 2106](#) expenses are not required to be deducted from income even if they are reported on [IRS Form 2106](#). Additionally, the expenses are not required to be added as a monthly liability for the borrower.
- For a borrower earning commission income that is 25 percent or more of annual employment income, [IRS Form 2106](#) expenses must be deducted from gross commission income regardless of the length of time the borrower has filed the expenses with the IRS.
- One exception is an automobile lease or loan payment. An automobile lease or loan payments are not subtracted from the borrower's income as they are considered part of the borrower's recurring monthly debts/obligations in Section D on VA Form 26-6393, Loan Analysis.

Commission earnings are generally averaged over a period of time. The underwriter must calculate Effective Income for Commission by using the lesser of either:

- The average Commission Income earned over the previous two years for income earned for two years or more, or the length of time Commission Income has been earned if less than two years, or
- The average Commission Income earned over the previous year

Decline in Earnings

When applying an average to the income calculation, and earnings have declined, the lower amount reflected for the current year-to-date will typically be used. For example:

- The borrower earned \$200,000 in 2018
- Current year-to-date earnings are \$150,000 through November 1st, 2019
- The average of 2018 and the current year-to-date (22 months) equals \$15,909

- The year-to-date average using 2019 (10 months) equals \$15,000

The year-to-date average of \$15,000 would be the income used in qualifying the borrower as the higher average using both years is not an accurate depiction of the income trend.

Increase in Earnings

When applying an average to the income calculation, and earnings have increased, the more conservative average of the lower and higher year's earnings will typically be used. For example:

- The borrower earned \$150,000 in 2018
- Current year-to-date earnings are \$200,000 through November 1st, 2019
- The average of 2018 and the current year-to-date (22 months) equals \$15,909
- The year-to-date average using 2019 (10 months) equals \$20,000

The 2018 and 2019 average of \$15,909 would be the income used in qualifying the borrower.

Disability Income

Long-term disability that does not have a defined expiration date or that will not expire in the next 3 years from the Note date may be used as qualifying income. The requirement for re-evaluation of benefits is not considered a defined expiration date.

If a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three years (based on Note date) because they are being converted to long-term benefits, the amount of the long-term benefits must be used as income to qualify the borrower.

A copy of the disability policy or benefits statement from the benefits payer (insurance company, employer, or other qualified disinterested party) must be obtained. Evidence of one month's receipt of the income must be documented.

The documents must be analyzed to confirm:

- The borrower's current eligibility for the disability benefits

- The amount and frequency of the disability payments
- If there is a contractually established termination or modification date

If documentation is received that details the nature, reason, or severity of a disability of a borrower, this information may not be considered in the qualification process.

Refer to the [VA Nonservice Connected Pension](#) section for guidance related to nonservice connected (disability) pension, which is a needs-based program for veterans with war-time service who are permanently and totally disabled, or over 65.

Family Employment

Family Employment or Family-Owned Business Income refers to income earned from a business owned by the Borrower's family, but in which the Borrower is not an owner.

Although VA does not address Family Employment, the underwriter should closely review all documentation to ensure the income used for qualifying is supported. The underwriter should consider the following when analyzing borrowers employed by family:

- Any increase or decrease in wages
- Type of income earned (i.e. salary vs. commission or bonus)
- Borrower's current versus prior years earnings
- Borrower's history of employment in their current line of work
- Consistency between rate of pay displayed on pay stubs and deposits into the borrower's bank account(s)
- Borrower's time employed by the family-owned business

Any inconsistencies should be thoroughly addressed and any supporting documentation must be provided in the loan file.

Time Employed by Family

Borrowers must be employed by family for a minimum of six months; a loan exception is required for borrowers employed by family less than six months.

Foster Care

Foster care income may only be used to balance the expenses of caring for the foster children against any increased residual income requirements with documented history and verified continuance.

Interest and Dividend Income

Interest from bonds, savings accounts or others and Dividends from stock (or other) may be included as effective income. Documentation of income must support both:

- A 12-month history of receipt; and
- The likelihood or continuance of the income for at least 3 years from the anticipated closing date

Income from Gambling

Gambling winnings may be considered as acceptable income provided it is regularly received by the borrower and expected to continue.

Documentation

- Two years' most recent tax returns reflecting gambling winnings. Gambling losses as itemized on Schedule A must be taken into consideration when determining qualifying income.
- A three year continuance of the income based on the Note date, such as the borrower claiming a casino annuity, must be documented.

Income from a Cannabis-Related Business

The Mortgagee may only consider income if it is legally derived and, when required, properly reported as income on the Borrower's tax returns.

Since cannabis activity (even if state-licensed) is not legally recognized on a federal level, income generated from business activity directly related to the production or distribution of cannabis (or marijuana), or products containing cannabis, may not be considered in loan qualification.

If the borrower has ownership in a cannabis-based business that manufactures, distributes, or dispenses cannabis, any income or assets from that business cannot be considered in the loan qualification.

Income from Overtime Work, Part Time Jobs, Second Jobs, and Bonuses

Income must be received for two years and continuance must be supported. To include income from these sources:

- The income must be consistent,
- There must be a reasonable likelihood that it will continue in the foreseeable future based on its compatibility with the hours of duty and other work conditions of the borrower's primary job and,
- How long the borrower has been employed under such an arrangement must be considered

If the income is not eligible to be considered as qualifying income, it may be considered to offset debts of 6-24 months in duration if it is verified to have been received for at least 12 months. An explanation of why the income was used to offset must be documented on VA Form 26-6393, Loan Analysis.

Notes Receivable

Documentation of income must support a 12-month history of receipt and the likelihood of continuance of the income for at least 3 years from the anticipated closing date to include in effective income.

Required Documentation

- Copy of the Note indicating the amount and length of payments
- Evidence of receipt of Note income for a minimum of 12 months

Per Diem Earnings

Per Diem pay may be considered as Effective Income if it can be determined to be stable and evidence is provided that the income is likely to continue. The underwriter must use judgment and flexibility when warranted.

To determine whether income is stable and reliable, the probability of continued employment must be determined through examination of the:

- Borrower's employment history

- Borrower's training, education and qualifications for his or her current position, and/or types of employment

Only verified income can be considered in the repayment calculation. For guidance on automobile allowance, refer to the [Auto Allowances](#) section.

Public Assistance

Verified income from public assistance programs may be considered as effective income if evidence indicates it will likely continue for 3 years from the Note date.

In Home Supportive Services (IHSS)

Income generated from state sponsored programs, such as In Home Supportive Services (IHSS) is acceptable if:

- There is a two-year documented history of receipt,
- A three year continuance can be established, and
- The borrower can provide evidence of current receipt of income

Section 8 Housing Choice Voucher Homeownership Program Payments

The Housing Choice Voucher Program (more commonly known as Section 8) is an acceptable source of qualifying income.

To document Section 8 housing income:

- Obtain documentation from the public housing agency that issued the homeownership voucher verifying the terms, including the source, benefit type, payment frequency and payment amount

Payments may not be used to offset the monthly housing payment amount used for qualification.

Rental Income

Subject

If the subject property is a Single Family with Accessory Dwelling Unit (ADU), Multi-Unit Property (2-4 Unit), rental income from the property may be used as qualifying income if the following conditions can be met:

- The veteran/borrower must occupy one unit as his/her residence,
- Cash reserves totalling 6 months PITI have been documented, and
- The borrower has a reasonable likelihood of success as a landlord as indicated by a history of prior rental management documented with:
 - Two years of tax returns¹, or
 - A fully executed 12-month² contract with a Property Management Company (PMC) in lieu of the previous landlord experience. The monthly cost of the PMC service must be included in the qualifying ratios.
 - Contract must be with a management company and not an individual caretaker, real estate agent or property manager

¹VA has clarified two-years tax returns must be provided

²VA has clarified the contract must be of a duration of no less than 12 months

The rental income should be calculated based on 75% of the:

- Verified rent collected on the units if the subject property is an existing property
- Fair market rent per appraiser's opinion on proposed construction

VA has clarified that they do not prohibit a lease agreement from a family member.

Accessory Dwelling Unit (ADU)

VA has clarified that rental income received from an Accessory Dwelling Unit (ADU) is eligible when meeting requirements of [Temporary Boarder Income Single Family Residence](#).

Departure Residence

In order to use rental income to offset the mortgage payment on a property previously occupied as the Veteran's primary residence, obtain the following documentation:

- Copy of the fully executed rental agreement on the property
 - A long term lease is required; a month-to-month term may be considered on an exception basis

Use the rental income to offset the mortgage payment on the departure residence only; rental income may not be included in effective income. Reserves are not needed to offset the mortgage payment on the departure residence.

Example: Veteran's current home has a mortgage with a monthly PITIA payment of \$1,000. The home will be rented for \$1,200 per month upon closing of a new primary residence home. The rent of \$1,200 can be used to offset the existing mortgage payment, if all of the above conditions are met. The additional rent received in excess of the mortgage payment of \$200 cannot be used as effective income.

Departure Residence Definition: A departure residence is a home that is currently owned and occupied by the borrower that they are planning to move out of and convert to an investment property.

- Note: If the borrower chooses to convert that home to an investment property after acquisition of a new home or establishment of a new residence, the property no longer meets the definition of a departure residence.

Other Real Estate Owned

- Individual income tax returns, signed and dated plus all applicable schedules for the previous 2 years which show rental income generated by the property must be provided
- A minimum of 3 months PITIA must be verified for each property the borrower owns:

- Monthly payment amounts for other properties that the borrower owns must be verified and must include principal and interest on the first lien and any secondary financing, taxes and insurance and, when applicable, mortgage insurance premiums, leasehold payments, ground rent, co-op maintenance, and homeowners association dues (excluding unit utility charges).
- When a payment appears to be for interest-only or a below-market ARM, obtain a verification of mortgage or comparable alternate documentation to confirm the correct recurring monthly payment to be used in calculating the property's applicable PITIA.

Homeowner Association Dues (HOA)

- If the property has no HOA dues, a signed letter from the borrower attesting to no dues will be required. A processor certification is not acceptable
- If the property requires HOA dues, documentation clearly showing the monthly liability must be provided. Acceptable documentation may include, but is not limited to:
 - Page 1 of an appraisal completed on another lending transaction confirming the amount and frequency of the property dues, or
 - Written Attestation from the HOA confirming the amount and frequency of the property dues, or
 - Verification of Homeowner's Association Dues Form
 - The homeowner's association management company may complete the form on behalf of the borrower to confirm the frequency, dues, and any other pertinent information associated with the property, or
 - Redfin, Zillow, or other printout such as an MLS listing confirming the amount and frequency of the property dues
 - Note: a processor's certification or written verification from the borrower is not acceptable documentation to confirm monthly dues

Octane

Octane requirements for Evidence of Homeowner's Association Dues Liability will fire when it is indicated that the REO is HOA applicable by entering the HOA Fees in Property > Expenses. If the REO is not subject to HOA dues, the field will need to reflect zero.

Real Estate Taxes

Real estate tax amounts for non-subject properties must be evidenced utilizing one of the following documents:

- Property Tax Statement (Notice of Valuation)
- Income Tax Return Schedule E
- Form 1098
- Printout from County Tax Assessor
- Other documentation supporting property tax amount
- If taxes are escrowed, the mortgage holder's billing statement reflecting escrows

Analysis of Rental Property Income

Each property(ies) must have a 2-year rental history itemized on the borrower's tax return. Property depreciation claimed as a deduction on the tax returns may be included in effective income. If after adding depreciation to the negative rental income, the borrower still has rental loss, the negative income should be deducted from the overall income as it reduces the borrower's income.

If rental income will not, or cannot be used, then the full mortgage payment should be considered and reserves do not need to be considered.

Calculating Monthly Qualifying Rental Income (or Loss)

Federal Income Tax Returns, Schedule E

When Schedule E is used to calculate the rental income:

- If the property was in service for the entire year, the rental income must be averaged over 12 months.

- If the property was in service for less than the full year, the rental income must be averaged over the number of months the borrower used the property as a rental unit indicated by the number of fair rental days on the Schedule E.

Lease Agreements or Form 1007 or Form 1025

When the current lease agreements or market rents reported on Form 1007 or Form 1025 are used, the remaining 25% of the gross rent is attributed to vacancy losses and ongoing maintenance expenses.

- Calculate the rental income by multiplying gross monthly rents by 75%
- The remaining 25% of the gross rent is attributed to vacancy losses and ongoing maintenance expenses.

Treatment of Income (or Loss)

- If the monthly qualifying rental income minus the PITIA is positive, then the rental income is added to the borrower's total monthly income
- If the monthly qualifying rental income minus the PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations
- The full PITIA for the rental property is factored into the amount of the net rental income or loss, it should not be counted as a monthly obligation
- The full monthly payment for the borrower's primary residence must be counted as a monthly obligation

Properties Owned Free and Clear

If the borrower owns properties other than the subject property free and clear, the associated real estate taxes, insurance, and any homeowners association fees must be documented and included in the calculation of that property's qualifying expense per the applicable method of qualification as a second home or investment property.

Reserve/National Guard

- Borrower must indicate whether his/her income will change in any part due to his/her participation in the Reserve/National Guard; and
- If Reserve/National Guard income will probably continue based on the total length of service, then this income may be used to qualify
- If continuance is not likely, the income may be used to offset debt that has only 10-24 months of payment remaining.
- For recently activated Reserve/National Guard, the underwriter must determine the borrower's income upon unit activation. Underwriter must also comment in the VA Analysis/26-6393 the reason(s) for using/not using Reserve/National Guard income
- If income will be reduced by borrower leaving current job, the underwriter must carefully evaluate the impact to the borrower's ability to repay (ATR) the loan as well as manage their current expenses
- If income will increase, then consider if the likelihood the income will continue beyond a 12-month period

Retirement

Retirement or pension income is an acceptable source of stable income so long as the source, regular receipt, and payment frequency can be verified, and the likelihood or continuance of the income for at least 3 years from the anticipated closing date can be established. Non-taxable pensions can be grossed up to determine the qualifying income amount but cannot be grossed up to meet the residual income requirements.

If the retirement income is from a pension or government annuity that continues for the lifetime of the borrower, then the underwriter may consider the income as stable and continuing.

- Verification of regular and continued receipt may be obtained from one of the following:
 - Letters from the organization providing the income,

- Copies of retirement award letters,
 - IRS W-2 or 1099 forms,
 - Copies of signed federal tax returns,
 - The borrower's most recent one month's bank statements evidencing receipt
- Retirement income from a 401(k), IRA, or Keogh account must be assessed for continuance,
 - The account must be fully vested,
 - The borrower must have unrestricted access without penalty to the account,
 - If the assets are being used for down payment or closing costs, the value of the accounts must be reduced by these payments,
 - A history of distribution(s) must be established and supported, at minimum, through the borrower's most recent month's bank statements.
 - If the borrower is only using required minimum distributions to qualify (RMD) then the underwriter may use the last two years 1099R's in lieu of bank statement(s)

If the borrower is newly retired and has not yet received a payment, the underwriter may allow an exception if the first payment will be received prior to the first payment date of the subject transaction and the borrower has sufficient reserves to meet any obligations before that date.

Royalty Income

Income from Royalties may be included as effective income. Documentation of income must support:

- The amount, frequency, and duration of the income; and
- A 12-month history of receipt; and
- The likelihood or continuance of the income for at least 3 years from the anticipated closing date (Note date)

Seasonal Income / Seasonal Unemployment

Seasonal Employment refers to employment that is not year-round, regardless of the number of hours per week the Borrower works on the job. Employment Income from Seasonal Employment may be considered as effective income if the Borrower has worked the same line of work for the past two years and is reasonably likely to be rehired for the next season.

Seasonal unemployment benefits are payments made by the state or other jurisdiction to borrowers during seasonal layoffs. Unemployment income may be used as effective income for those individuals with effective income from Seasonal Employment.

Required Documentation

- For seasonal employees with unemployment income, the unemployment income for two full years must be demonstrated with the following documentation and there must be reasonable assurance that this income will continue.
 - Verify that the borrower has worked in the same job (or the same line of seasonal work) for the past two years;
 - Verify that the seasonal unemployment compensation is reported on the borrower's signed federal income tax returns;
 - Verify that the seasonal unemployment compensation is reported on the corresponding personal tax return Record of Account or personal income tax return transcripts;
 - Verify that the borrower is currently receiving unemployment compensation associated with seasonal layoffs if the borrower is not currently employed with the seasonal employer;
 - If currently employed, document seasonal employment per AUS requirements;
 - If not currently employed with the seasonal employment, confirm with the borrower's employer using a standard Verification of Employment that there is a reasonable expectation that the borrower will be rehired for the next season.

Calculation of Effective Income

- For employees with Employment Income from Seasonal Employment, an average of the income earned over the previous two full years from both the seasonal employment AND unemployment may be used to calculate Effective Income.
- When a borrower's employee income from a seasonal employer has decreased but the unemployment for the same time period has increased, consideration is provided to the reason for the seasonal employment income decline. The income from the seasonal employment income will be averaged as will the unemployment income to develop an average for both income sources and provide fair consideration for the declining income source.

Self-Employment Income

The following standard documentation is required in order to use self-employment income:

- YTD Profit and Loss statement (if the most recent years' tax return has not yet been prepared, a P&L statement for that year must also be provided)*;
- Current Balance Sheet*;
- Individual income tax returns, signed and dated, plus all applicable schedules for the previous 2 years (or additional periods if needed to demonstrate a satisfactory earnings record).
- If the business is an LLC, Sub-S Corp, Partnership or Corporation with 25% or more ownership, include copies of the signed and dated federal business income tax returns for the previous 2 years with all applicable schedules, and a list of all stockholders or partners showing the interest each holds in the business
 - For borrowers with farming income reported on Schedule F, [Fannie Mae Form 1084](#) or [Freddie Mac Form 91](#) can be used to calculate the income.

*YTD P&L and Balance Sheet required on Manually Underwritten loans only. The financial statements must be sufficient for an underwriter to determine the necessary information for loan approval. Financial Statements, including a year-to-date Profit and Loss Statement and Balance Sheet must be completed after one-half of the tax-year has passed to verify current income and stability of the income.

The underwriter may require an accountant or Certified Public Accountant-prepared financial statements if needed to make such a determination due to the nature of the business or the content of the financial statements.

Analyze Income Derived from Self-Employment

Generally, income from self-employment is considered stable when the borrower has obtained such income for at least 1 year. Less than 2 years cannot be considered stable unless the borrower has had previous related employment and/or specialized training. Less than 1 year is not eligible.

If the business shows a steady or significant decline in earnings over the period analyzed, the reasons for the decline must be analyzed to determine whether the trend is likely to continue or be reversed.

If the Veteran's secondary source of income is from self-employment (primary employment is from a source other than self-employment):

- Self-employment must be documented and evaluated in accordance with standard guidance
- If positive and not used to qualify, show income as Non-Qualifying
- If negative, the loss must be calculated in the DTI

If a co-borrower has self-employment not used to qualify

- Self-employment must be documented and evaluated in accordance with standard guidance
- If positive and not used to qualify, show income as Non-Qualifying
- If negative, the loss must be calculated in the DTI

If business ownership is less than 25%

- Follow AUS for number of years of K-1 statements to provide
- No business tax returns or Profit and Loss statements are required
- If income is being used to qualify:
 - Ordinary income, distributions or guaranteed payments to partners can be used to qualify
 - Income after the most recent tax return must also be documented
- If income is not being used to qualify, show income as Non-Qualifying
- If loss is shown, the loss must be included in the DTI calculation

Refer to the Tax Documentation Policy located in [Chapter 2 | Documentation Standards](#) for additional guidance.

Self-Employed Business no Longer Open and Operational

When a self-employed business is not disclosed, but is identified on the tax returns, Fraud Report, or other documentation, and that business has closed or has changed ownership, evidence must be provided that the entity is no longer open and operational.

Acceptable documentation may include:

- Business Dissolution documents such as Articles of Dissolution or Certificate of Cancellation
- State or Local Business Closure Notice
- Public Notices or Bankruptcy Filings (If Applicable)
- Confirmation from Relevant Licensing Authorities
- Final Tax Return(s), or
- Proof of business sale

If evidence cannot be provided that the business is no longer in an active status, tax returns may be required and any loss experienced may need to be included in the qualifying ratios.

Deductions and Expenses Claimed on Tax Returns

Depreciation claimed as a deduction on the tax returns and financial statements of the business may be included in effective income. This is the ONLY add-back allowed on a VA loan.

Business or roll-over losses must be considered from all tax returns.

Mileage Reimbursement

Add back the amount of the depreciation deduction reported on Schedule C; vehicle depreciation included as part of the standard mileage deduction may be added back by multiplying the business miles driven by the depreciation factor for the respective year.

The amount of allowable depreciation related to auto expenses will not correlate directly to the full amount of the current IRS Standard Mileage Rate. Only a portion of the rate is considered for automobiles a taxpayer uses for business purposes. The factors listed below may be used when multiplying the business miles driven by the depreciation factor for the respective year.

Tax Year	Portion of Business Standard Mileage
2025	33 cents per mile
2024	30 cents per mile
2023	28 cents per mile

Temporary Boarder Rental Income Single Family Residence

The verification of temporary boarder rental income requires the following:

- Individual U.S. Income Tax Returns, signed and dated, plus all applicable schedules for the previous 2 years, which show boarder income generated by the property, and
- The rental cannot impair the residential characteristic of the property
- The rental area cannot exceed 25 percent of the total floor area

If the veteran will be purchasing the subject property, has received rental income for two years and is planning on continuing the same arrangement with their current boarder, a letter from the boarder verifying they will be moving with the veteran and residing in the new property must be provided.

Analysis of Temporary Boarder Rental Income

Include rental income in effective income only if the borrower has a reasonable likelihood of continued success due to the strength of the local market. Provide a justification on VA Form 26-6393, Loan Analysis.

PITI reserves are not necessary to consider the income, and the full amount of the income may be used in the analysis.

Traveling Nurses

Travel nursing is a nursing assignment concept that developed in response to the nursing shortage. The industry supplies nurses who travel to work in temporary nursing positions, mostly in hospitals. While travel nursing traditionally refers specifically to the nursing profession, it can also be used as a blanket term to refer to nursing and allied healthcare professionals, physicians, advanced practice nurses, physician assistants, dentists and other support staff including certified nursing assistants.

Nurses may be paid as a contract employee and receive either a W2 or 1099 wage. Employment can also be offered under short or long-term assignments.

VA does not provide direct guidance for income derived from employment as a traveling nurse, however, does require the income meet the requirements for [Effective Income](#).

In the instance where a borrower may have less than a 12 month history of employment as a traveling nurse receiving variable wages, employment may still be considered acceptable if the borrower:

- Can demonstrate an employment history in the same line of work, and
- Can qualify using a 12 to 24 month income average from the prior employer without consideration for wages from new employment as a traveling nurse. The Underwriter must use the most conservative income between the prior wages and current income received.

A Loan Level Review may be submitted if additional guidance is needed when reviewing the length of the borrower's employment history or to support Occupancy.

History of Employment

The degree of fluctuation and the length of receipt of the type of wages (or similar earnings) must be considered when calculating income used to qualify for the Mortgage. The Underwriter must evaluate the income trend and use the amount that is most likely to continue for the next three years.

The stability of income is determined based primarily upon historical earnings, thus a sufficient income history must be established. For this reason, most income types that fluctuate have a history requirement of two years. In certain instances, a shorter history may still be considered stable if a written analysis and sufficient supporting documentation is provided to justify the stability of income.

If needed, a combination of employers or assignments may be used to establish a sufficient employment history.

Trust Income

Trust Income refers to income that is regularly distributed to a borrower from a trust.

Required Documentation

Documentation of income must support a one-month history of receipt and the likelihood of continuance of the income for at least 3 years from the Note date to include in effective income. Otherwise, consider whether it is reasonable to use the income to offset short-term obligations of 6 to 24 months duration.

Calculation of Effective Income

Use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate Effective Income.

Trust Income Reported on Form 1041

Form 1041 U.S. Income Tax Return for Estates and Trusts is used to report income earned by a trust or estate. Only the share of income reported on a schedule K-1 and carried over from the 1041 to the borrower's Individual Federal Income Tax Return Form 1040 may be considered as eligible income. Income reported on the 1041 and not reflected as a distribution to the borrower is ineligible.

Unemployment Benefits

Temporary income such as unemployment may not be considered effective income, unless unemployment compensation is a regular part of a borrower's income due to the nature of his/her employment (for example, seasonal work).

Union Employee(s)

Members of Trade Unions, such as Carpenters, Plumbers, Masons, or Electricians may work for several different companies over the course of a year and as a result have several W2 forms.

Stability of employment must be supported with a two year work history along with a three year evidence of continuance based on the Note date (if there is not a clear indication that the income will cease, it may be presumed that the income will continue).

VA does not specify a sole method (such as using an average) of calculating income; the underwriter must use their discretion when calculating income and when determining that the income is stable and continuous.

Non-Taxable Income

The underwriter must verify that the particular source of income is nontaxable. Documentation that can be used for this verification includes award letters, policy agreements, account statements, income tax returns, or any other documents that address the nontaxable status of the income.

Non-taxable income may be grossed up to calculate the debt ratio only, and may not be grossed up for residual income calculations. The income must be noted in the “remarks” section of the Loan Analysis.

The percentage of non-taxable income that may be added back is based on the appropriate tax rate for the income amount reflected on the borrower’s tax returns. The income must be adjusted to a pre-tax gross income amount which after deducting state and Federal income taxes equals the tax exempt income. In no case may the gross up exceed 125%:

- VA Disability*
- Child Support
- Spousal Support
- Certain types of public assistance
- Some forms of Federal or State retirement
- BAH
- COLA (In Alaska and Hawaii)

*Tax returns are not required when grossing up VA Disability income. The requirement in Octane for the returns may be waived as long as the returns are not needed to support other types of qualifying income.

Social Security Benefits

Recipients of Social Security benefits may not be required to pay federal income taxes on all or part of the income, thereby allowing the benefit to be grossed up by the appropriate tax percentage.

The following link may assist when determining the benefit amount subject to taxation by the IRS <https://www.ssa.gov/benefits/retirement/planner/taxes.html>.

Cost of Living Adjustment (COLA)

To assist individuals keep up with the changing cost of living, beneficiaries of Social Security benefits and Supplemental Security Income (SSI) payments often receive an annual cost of living adjustment (COLA).

If the borrower's eligibility for the expected increase can be documented, the increase may be applied to the qualifying income prior to the date of the adjustment; the adjustment must be received by the borrower within 60-days of the Note date.

For example, Social Security benefits and Supplemental Security Income (SSI) payments will increase by 2.8% for the year 2026. The additional 2.8% increase may be used for qualification on loans closed prior to 2026 if eligibility can be documented and the receipt of the benefit will occur within 60 days of the Note date.

Entitlement

The Veterans administration determines the available entitlement which will be shown on the COE. Refer to the applicable snapshot for details regarding entitlement according to loan amount and full or partial entitlement.

Full Entitlement

Available if a borrower has never had a VA loan, or if the previous VA loan has been paid off and the borrower has no other outstanding VA loans.

- The Full entitlement + down payment (if any) = Final Entitlement/Guaranty.
- Divide Final Entitlement/Guaranty by the total loan amount = % of Guaranty.

Partial Entitlement

If a borrower has previously used his/her eligibility on another property which will not be restored, only the remaining entitlement amount is available for use for the new VA loan.

Restoration of Entitlement

Basic Restoration

Entitlement previously used in connection with a VA home loan may be restored under certain circumstances. Once restored, it can be used again for another VA loan.

Restoration of previously used entitlement is possible if:

- The property which secured the VA-guaranteed loan has been sold, and the loan has been paid in full (Veteran borrower will restore his/her entitlement with the sale of the existing residence closing simultaneously with the new residence and prior to our loan funding supported by a final closing disclosure reflecting the sale of the home has been completed); or
- An eligible Veteran-transferee has agreed to assume the outstanding balance on a VA loan and substitute his or her entitlement for the same amount originally used on the loan. The assuming Veteran, substituting his/her entitlement, must also meet occupancy, income, and credit requirements. This should be completed before requesting the Loan Guaranty Certificate in WebLGY, on the new loan.

Special Restoration Cases

In addition to the basic restoration criteria outlined above, a Veteran may obtain restoration of the entitlement used on a prior VA loan under any of the following circumstances:

- Regular “cash-out” refinance where the prior VA loan has been paid in full and the Veteran has made application for a refinance loan to be secured by the same property which secured the prior VA loan. This includes refinancing situations, in which the prior loan will be paid off at closing from a VA refinancing loan on the same property, or
- One –time restoration where the prior VA loan has been paid in full, but the Veteran has not disposed of the property securing the loan. The Veteran may obtain restoration of the entitlement used on the prior loan in order to purchase a different property, one time only. Once such restoration is used, the Veteran’s COE will indicate the one-time restoration. The COE will also advise that any future restoration (purchase or cash-out refinance) will require disposal of all property or properties obtained with a VA loan.

If any of the above is true, the veteran must restore his/her entitlement prior to closing by forwarding the following documentation to the applicable Eligibility Center:

- Completed VA Form 26-1880
- Proof of military service
- Copy of signed and dated loan application (1003) for subject transaction
- Supporting documentation proving the disposition of the prior debt, such as Final HUD-1 Settlement Statement (loan applications on/before 10/02/2015) or Closing Disclosure (loan applications on/after 10/03/2015)
- Assumption paperwork
- Paid Note/paid in full statement from the prior lender, or statement that the loan will be used to refinance an existing primary residence. If the borrower is purchasing a home and will restore his entitlement with the sale of the existing residence simultaneously,

The VA considers a closing within a seven (7) day period as a simultaneous closing. The original COE will reflect less than full entitlement and the debt listed on the COE must be paid in full with the statement of the existing residence, thereby restoring full entitlement for guaranty.

Split Entitlement

If AUS issues an Accept/Ineligible for transactions with two unmarried borrowers using Split Entitlement, the loan does not need to be manually downgraded. AUS findings may be followed as long as the only reason for the Ineligible recommendation is due to the borrowers not being married.

Simultaneous Closings ONLY

The following must be in the loan file to restore the entitlement at the time of insuring:

- Original COE
- Completed VA Form 26-1880 showing the property has been sold
- Proof of military service
- Evidence of the disposition of the prior debt or evidenced by the Closing Disclosure (loan applications on/after 10/03/2015), paid in full statement from prior the lender

Entitlement Code – Use the separation, effective, or discharge date to determine the code as follows:

1. World War II
2. Korean War
3. Post-Korean War
4. Vietnam War
5. Entitlement Restored
6. Un-Remarried Surviving Spouse
7. Spouse of POW/MIA
8. Post-World War II
9. Post-Vietnam War
10. Persian Gulf War
11. Selected Reserves

Guaranty

Refer to the applicable Product Snapshot for details:

- [VA Purchase](#)
- [VA Rate/Term Refinance or Cash-Out Refinance](#)
- [VA Interest Rate Reduction Refinance Loan \(IRRRL\)](#)

Escrow Waivers

Escrow Waivers are not permitted.

Fees and Charges

The VA allows the borrower to pay a maximum of:

- Reasonable and customary amounts for any or all of the “Itemized Fees and Charges” designated by VA and noted in the table below, plus
- A 1% origination fee based on the total loan amount, plus
- Reasonable discount points

If “Unallowable Fees” are charged to the borrower, those fees along with any origination fee charged cannot exceed a total of 1% based on the total loan amount. Unallowable fees may be paid by the seller if concessions are noted in the purchase contract

Example:

- Charge 1% origination fee; CANNOT charge ANY unallowable fees to veteran; or
- Charge 1% unallowable fees to veteran; CANNOT charge ANY additional origination fee; or
- Blend the origination fee and unallowable fees not to exceed a total of 1% maximum.

Refer to the [Charges and Credit Matrix](#) for additional details on charge name and description

Itemized Fees and Charges / Allowable Fees

The following fees are allowed in addition to a 1% origination fee being charged:

- | | |
|--|---|
| <ul style="list-style-type: none"> ● Appraisal Fee (per VA allowable maximum fee schedule for that state) ● Appraisal reconsideration fees only if borrower requests the value reconsideration ● Compliance Inspection (only if required by the NOV) ● Well and Septic inspection fees ● Environmental protection lien ● Pest Inspection (refinances only) ● Credit report up to \$100 - Actual amount only; for AUS cases, the evaluation fee may be paid in lieu of a charge for a credit report, ● Express mail fees (refinance only) ● Flood certification fees from a 3rd party not included in the appraisal report ● Condo / HOA Certification Fee ● Hazard and Flood Insurance premiums ● Prorated taxes, assessments, and initial deposits for escrow accounts ● Per Circular 26-24-14 and effective August 10, 2024 <ul style="list-style-type: none"> ○ Real Estate Broker Fee* ○ Real Estate Commission* ○ Real Estate Commission Listing Agency* ○ Real Estate Commission Selling Agency* ○ Real Estate Transaction Coordination Fee* ○ Real Estate Concession* | <ul style="list-style-type: none"> ● Transfer Taxes ● Title insurance, title policy, title exam, title search, title endorsements and any fees required to prepare title work ● Title - Attorney Fee <ul style="list-style-type: none"> ○ The Attorney Fee is included in the 1% percent origination fee aggregate percent limit (see below) unless the subject property state is DE, IL, MA, NJ, or NY ● Title - Guaranty Fee (up to \$3) ● Closing Protection Letter ● Survey and Plot Plan ● MERS registration fee ● Mortgage Supplemental Coverage ● Participation Fee ● Recording fees, taxes & stamps ● MCC Compliance / Document Fees ● Reasonable discount points ● Other fees deemed acceptable by VA |
|--|---|

*Conditions related to buyer-broker charges including commissions and other broker-related fees:

- The property is in an area where listing brokers cannot set buyer-broker compensation or where compensation cannot flow through the listing broker
- Buyer-broker charges must not be included in the loan amount
- The Veteran's ability to pay these charges will be assessed to ensure they have sufficient liquid assets to close the loan
- The charges must be recorded in the appropriate section of the Closing Disclosure, and the buyer-broker representation agreement must be included in the sales contract package

Unallowed Fees

The following fees are unallowed if a 1% origination fee is being charged.

If the 1% origination fee is not charged, or if the origination fee is less than 1%, the below list of unallowed fees can be charged to the veteran provided the total of the origination fee and unallowable charges does not exceed 1%.

- | | |
|---|---|
| <ul style="list-style-type: none"> ● Lender's Appraisal fee (not required by VA), i.e. Desk Review ● Appraisal Fee- Disaster Inspection ● Lender's inspection fees ● Loan closing or settlement fees ● Document preparation fees ● Preparing loan papers or conveyancing fees ● Attorney's services other than for title work ● Photographs ● Interest rate lock-in fees ● Postage and other mailing charges, stationery, telephone calls, and other overhead ● Amortization schedules ● Escrow fees and charges ● Notary fees ● Commitment fees or marketing fees ● Trustee fees ● Loan application and processing fee | <ul style="list-style-type: none"> ● Fees for preparing Truth-in-Lending (TIL) Statement for loan applications dated on/before 10/02/15 or Closing Disclosure (CD) for loan applications dated on/after 10/03/15 ● Fees charged by Loan Brokers, Finders or other third parties ● Prepayment Penalties ● Pest Inspection (purchase transaction)* ● Subordination Prep Fee - 2nd lien ● Subordination Prep Fee - 3rd lien ● Tax service fees ● Underwriting fees ● Any other fees not listed as allowable by VA <p>Note: The above list is not all-inclusive</p> |
|---|---|

*Per [Circular 26-22-11](#), Veterans may be charged wood destroying pest inspection fees where required by the NOV. Veterans may also pay for any repair required to ensure compliance with MPR's.

Type I Cash-out Refinance

For Type I cash-out refinances that result in an increased principal and interest payment, the lender may not charge the Veteran loan fees, closing costs, or expenses *other than* taxes, amounts held in escrow, and the VA funding fee.

State Fees and Charges Deviations

Refer to the VA [Lender Resources](#) for [State Fees and Charges Deviations](#) for changes to the above charts.

Funding Fee

The VA Funding Fee (FF) may be financed into the loan amount or paid in cash (upfront); the funding fee may not be split between financing and cash payment.

When the borrower pays the funding fee in cash, the following must be documented:

- Funds must be sourced and seasoned
- When the seller pays any portion of the funding fee, it is considered a seller concession

Funding Fee Status on Certificate of Eligibility

VA added the veteran's funding fee status to the Certification of Eligibility (COE) in 2011. Lenders should rely on the funding fee status shown on the COE as evidence of the Veteran's exemption status.

If the COE / Inquire application does not show that the veteran is exempt from paying the funding fee, the lender must ask the veteran if he/she has a claim for compensation pending with VA. If so, the lender must obtain an updated COE no earlier than 3 days before loan closing using the COE "Correct" function in WebLGY. Instructions for the "Correct" function are found in the "Quick Reference Document For Correct Certificate of Eligibility" and step-by-step instructions are available on the VA Lender Resource webpage in the Lender's COE tutorial.

Funding Fee Exemption

The funding fee exemption status should be established before loan closing . Ensuring that the funding fee exemption information is up to date at the time of closing is essential to avoid incorrect charges to exempt Veterans and to avoid unnecessary refund requests.

Lenders are to exercise due diligence in determining whether an exemption would apply at the time of loan closing. Lenders are not to ignore information that could indicate a funding fee exemption might apply. Lenders should not advise Veterans who believe they are exempt from paying the funding fee to close on a loan and plan to request a refund later. Doing so may be considered an error on the part of the lender, as refund determinations are specific to each Veteran and cannot be guaranteed.

Veterans may be exempt from the funding fee as verified on the COE or Verification of VA Benefits (VA Form 26-8937) only if the following exceptions are allowed:

- A Veteran who is receiving disability compensation (or who, but for the receipt of retirement pay or active service pay, would be entitled to receive compensation)
- A surviving spouse of any Veteran (including a person who died during active military, naval, or air service) who died from a service-connected disability and is in receipt of Dependency and Indemnity Compensation (DIC)
- An active-duty Service member, who is rated eligible to receive compensation based on a pre-discharge disability rating or a pre-discharge review of existing medical evidence that results in the issuance of a proposed or memorandum rating before the loan closing takes place. If a proposed or memorandum rating is not obtained, and the loan closing takes place before the Veteran is discharged from service, the funding fee exemption does not apply, and the Service member will not be entitled to a refund from VA.
 - Refer to [VA Circular 26-22-12](#) for additional guidance related to a pre-discharge disability claim pending with VA
- A Service member on active duty who provides, on or before the loan closing, evidence of having been awarded the Purple Heart.

First Time and Subsequent Use

VA Transactions Closing on or After April 7, 2023 and Prior to June 09, 2034

Type of Veteran	Down Payment	First Time Use %	Subsequent Use %
Regular Military, Reservist/National Guard	< 5%	2.15%	3.30%
	5% to < 10%	1.50%	1.50%
	> 10%	1.25%	1.25%
Cash-Out Refinance			
Regular Military, Reservist/National Guard	N/A	2.15%	3.30%
Interest Rate Reduction Refinance (IRRRL)/ Loan Assumptions			
Regular Military, Reservist/National Guard		0.50%	0.50%

Insurance

All loan files must contain evidence of sufficient hazard insurance, title, and flood insurance policies in accordance with VA policies. Cardinal requires minimum coverage equal to the lesser of the replacement costs or the total loan amount for all loans with appraisals. For VA IRRRLs, Cardinal will accept the borrower's current coverage amount as being adequate to cover the replacement cost of the subject property.

Refer to [Chapter 16 Insurance](#) for additional requirements.

Real Estate Tax Payment

Purchases

Required Documentation

The calculation of real estate taxes for qualification purposes must be documented using either:

- Copies of current property tax statements, figures provided by the title company/settlement agent, or

- The Property Tax Estimate from CoreLogic located in Octane. The CoreLogic Property Tax Estimate will provide the current and projected tax values for the property based on the occupancy and loan purpose
 - Note: The CoreLogic Property Tax Estimate can be located on the Octane Charges & Credits screen in the Taxes tab. It can also be found in Octane > Documents > Property Tax Estimate.

Projected Tax

The underwriter may (or in some circumstances must) project the real estate taxes (Projected Amount) if they document one of the following:

- The amount of taxes will be reduced based on federal, state, or local jurisdictional requirements (e.g. Military or Senior Exemptions). However, the taxes may not be reduced if an appeal to reduce them is only pending and has not been approved.
- The property jurisdiction requires a transfer of ownership that typically results in a reassessment or revaluation of the property and corresponding increase in the amount of taxes.
- The transaction is New Construction (i.e. One Time Close program, or Proposed, Under Construction or Newly Built Never Occupied).
 - A reasonable estimate of the real estate taxes based on the value of the land and completed improvements must be calculated.
 - Acceptable source documents include:
 - Estimate of taxes from either the title company or the tax assessor's office
 - Property Tax Estimate from CoreLogic
 - Available Exceptions: Reference [New Construction | State Specific Tax Calculations](#) for specific states that have flexibilities regarding the tax calculations for new construction properties.
 - The borrower **must** be qualified with the Projected Amount

- Note: A new feature allows the transaction to close with the current amount of taxes but will not impact the Projected Amount used in the qualifying DTI in Underwriting.

Refinances

Use the amount on the Title Report, tax certification, or CoreLogic Property Tax Estimate.

Tax Exemptions and Abatements

Tax exemptions, or abatements, are a temporary reduction in the actual amount of taxes that the owner(s) of a property must pay. In order for the reduced amount to be used for qualifying purposes, the abatement, homestead or exemption must remain in place for a minimum of three (3) after closing. If the Underwriter has knowledge that a “Homestead” or other type of classification is considered permanent, the time period does not need to be documented and the underwriting commentary on the transmittal form can indicate the details of the exemption. Documentation supporting the amount and term of the abatement must be in the loan file.

When the subject property is not currently owner-occupied, but it is verified that it will be when the mortgage transaction is complete, the verified amount of homestead property taxes may be used in qualification. This amount can be determined by county information that provides a clear description of the property tax amount once the homestead exemption has been applied.

The tax abatement or exemption must be from a governmental authority and not paid by the seller or by any other interested party.

Exemptions for Seniors, Veterans, Disabled Veterans or Others

Borrowers purchasing primary residences who are eligible for reduced property taxes such as senior exemptions, or exemptions for veterans in a certain state or municipality may be qualified at the reduced property tax amount if the title company can reliably calculate the taxes and the borrower furnishes a copy of the application (if needed) for the program. The real estate taxes for the subject property must be escrowed, unless prohibited by state law. The borrower must be informed that if the exemption is not approved then the escrow account will be adjusted accordingly.

Florida Homestead Exemption

When the subject property is not currently owner-occupied, but it is verified that it will become owner-occupied when the mortgage transaction is completed in conjunction with a primary residence purchase transaction, the verified amount of homestead property taxes may be used in qualification. This amount can be determined by county information that provides a clear description of the property tax amount once the homestead exemption has been applied.

With a Florida Homestead Exemption, the first \$25,000 in property value is exempt from all property taxes, including school district taxes. The following requirements apply:

- The homestead property must be the permanent residence, and the property is owned on January 1 of the tax year,
- The application deadline for all exemptions is March 1,
- An additional exemption of up to \$25,000 (or up to a maximum exemption of \$50,000) will be applied if the property's assessed value is between at least \$50,000 and \$75,000. However, the exemption is not applied to school district taxes.

Texas Basic Homestead Exemption

When the subject property is not currently owner-occupied, but it is verified that it will become owner-occupied when the mortgage transaction is completed in conjunction with a primary residence purchase, the verified amount of homestead property taxes may be used in qualification.

This amount can be determined by county information that provides a clear description of the property tax amount once the homestead exemption has been applied. Proof that the borrower is filing the property as their homestead is required at closing. The underwriter may use the homestead exemption property tax amount in calculating the borrower's PITIA if verification of the proposed amount is received from the title company.

Homestead exemptions in Texas are entitled to a \$3,000 exemption from county taxes and \$15,000 from school taxes. The following requirements apply:

- The homestead property may not exceed the applicable acreage limit as determined by Texas law.
- All separate structures must be included in the homestead exemption.

Texas Age 65 or Older or Disabled Exemption

Texas law requires school districts to offer additional homestead exemptions to persons age 65 or older or disabled. When the subject property is not currently owned by someone 65 years of age or older or that has documented their disabled status, but it is verified that the borrower on the new mortgage transaction will meet these criteria upon the successful closing of the purchase transaction, the verified amount of the proposed Age 65 or older or disabled homestead property taxes may be used in qualification. This amount can be determined by county information that provides a clear description of the property tax amount once the exemption has been applied. The following requirements apply:

- To qualify for the exemption for persons age 65 or older, the owner must be age 65 or older and live in the property. If the age 65 or older homeowner dies, the surviving spouse may continue to receive the local option exemption if the surviving spouse is age 55 or older at the time of death and lives in and owns the home and applies for the exemption.
- A disabled person must meet the definition of disabled for the purpose of payment of disability insurance benefits under the Federal Old-Age, Survivors and Disability Insurance Act.
- The homeowner does not have to meet the definition of disabled or age 65 or older on Jan. 1 of the tax year but may qualify as disabled or age 65 or older at any time during the tax year.
- An exemption applies to the entire tax year as if the person was disabled or age 65 on Jan. 1.
- Collect any required proration from Seller as exemption would not apply during the time Seller owned the property.

Texas Veterans Exemptions

Texas law provides partial exemptions for any property owned by disabled veterans and surviving spouses and children of deceased disabled veterans. It also provides a partial exemption for residence homesteads donated at no cost or not more than 50 percent of the good faith estimate of its market

value to disabled veterans by charitable organizations that extends to surviving spouses who have not remarried. When the subject property is not currently owned by a disabled veteran that has verified their status, but it is verified that the borrower on the new mortgage transaction will meet this criteria upon the successful closing of the purchase transaction, the verified amount of the proposed exemption may be used in qualification. This amount can be determined by county information that provides a clear description of the property tax amount once the exemption has been applied. The following requirements apply:

- The amount of exemption is determined according to the percentage of service-connected disability.
- A surviving spouse of a member of the U.S. armed services killed in action is allowed a total property tax exemption on his or her residence homestead if the surviving spouse has not remarried since the death of the armed services member.
- A disabled veteran who receives 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or individual unemployability from the United States Department of Veterans Affairs is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.
- Exemptions are applied after Jan. 1 of a tax year and the exemption applied for the balance of the year upon immediate qualification.
- Exemptions are removed after Jan. 1 of a tax year and the exemption is removed for the balance of the year and the higher tax rate must be evaluated.
- Collect any required proration from Seller as exemption would not apply during the time Seller owned the property

Interested Party Concessions

The maximum seller concession permitted is 4%. The VA's 4% rule does not include seller assistance for standard closing costs as described in the Fees and Charges section. VA regulations limit charges

“made against or paid by the borrower”. They do not limit the payment of fees and charges by other parties such as real estate agents or builders.

Seller concession or combination concessions (paid by seller) that exceeds 4% of the lesser of the appraised value or sales price, is considered excessive.

Seller concessions included, but are not limited to the following:

- VA Funding Fee
- Buyer’s property taxes, insurance, or association dues
- Gifts to entice buyers to purchase (new appliance packages, swimming pools/spas, television(s), etc.)
- Payment of extra points to provide permanent interest rate buydowns
- Payoff of a buyer’s credit balances or judgments, collections, charge-offs, etc.

Loan-to-Value (LTV)

Purchase

Calculate the LTV for the base loan amount excluding the VA Funding Fee. The maximum LTV excluding the funding fee is 100%.

Refinance Type 1 and 2

VA will not guarantee refinancing loans when the LTV exceeds 100 percent, which includes the VA Funding Fee. If the Veteran chooses to close a loan in which the loan amount exceeds 100 percent of the reasonable value of the property, the Veteran must pay the amount which exceeds 100 percent of the property value at loan closing.

Determining Reasonable Value

There are two options for determining reasonable value on a VA IRRRL fixed rate mortgage which impact the Loan-to-Value (LTV):

- Original Loan Amount as indicated on the VA Case Number Assignment, or
- Value determined by most recent appraised value provided by the veteran supporting case number within VA Case Number Assignment for underlying loan

Calculating LTV

Purchase: Divide the base loan amount (excluding VA funding fee, if applicable) by the lesser of the sales price or reasonable value on the Notice of Value of the property.

Refinance: Divide the total loan amount (including VA funding fee, if applicable) by the reasonable value on the Notice of Value of the property.

Maximum Term

Refer to the applicable Product Snapshot for allowed terms. The maximum loan term for a VA home loan is 30 years (and 32 days). The term of the loan may never be longer than the remaining economic life of the property as verified by the appraisal.

Occupancy

Primary residence only and the veteran must be the owner-occupant. Owner occupancy is generally required within 60 days of closing, but can be extended up to 12 months if the veteran borrower has a specific move-in date and particular reason/future event that is causing the delay; for example, active duty with separation orders of less than 12 months, or single veteran works overseas but certifies she/he will return quarterly to occupy as their primary home.

On both purchases and cash-out refinances the borrowers must certify they occupy (refinance) or they intend to occupy in the subject property.

Note: Second homes and investment properties are eligible for IRRRL transactions ONLY. Veteran must certify he/she previously occupied the property as a primary residence. Refer to the [Interest Rate Reduction Refinance \(IRRRL\) Occupancy](#) section for additional guidance.

Acceptable Occupancy Scenarios

The Law on Occupancy

A veteran obtaining a VA-guaranteed loan must certify that he or she intends to personally occupy the property as his or her home. As of the date of certification, the veteran must either:

- Personally live in the property as his or her home, or
- Intend, upon completion of the loan and acquisition of the dwelling, to personally move into the property and use it as his or her home within a reasonable time; Cardinal considers a reasonable time to be within 60 days of loan closing.

The above requirement applies to all types of VA-guaranteed loans except IRRRLs. Refer to the Interest Rate Reduction Refinance Loan (IRRRL) section for guidance on occupancy.

Intermittent Occupancy

The veteran need not maintain a physical presence at the property on a daily basis. However, occupancy “as the veteran’s home” implies that the home is located within reasonable proximity of the veteran’s place of employment. If the veteran’s employment requires the veteran’s absence from home a substantial amount of time, the following two conditions must be met:

- The veteran must have a history of continuous residence in the community, and
- There must be no indication that the veteran has established, intends to establish, or may be required to establish, a principal residence elsewhere

Use of the property as a seasonal vacation home does not satisfy the occupancy requirement.

Occupancy Requirements for Deployed Active Duty Service Members

Single or married service members, while deployed from their permanent duty station, are considered to be in a temporary duty status and able to meet the occupancy requirement. This is true without regard to whether or not a spouse will be available to occupy the property prior to the veteran's return from deployment.

Occupancy Certification

The veteran certifies that the occupancy requirement is met by checking the appropriate occupancy block and signing:

- VA Form 26-1820, Report and Certification of Loan Disbursement, at the time of loan closing (all loans)
 - With [Circular 26-23-03](#), VA has consolidated VA Form 26-1802a and VA Form 26-0503, Federal Collection Policy Notice, into the new VA Form 26-1820
 - Use of the new VA Form 26-1820 is required for loans with application dates on or after February 1, 2023. *VA Form 26-1802a and VA Form 26-0503 will no longer be required with use of the new VA Form 26-1820*

This satisfies Cardinal's obligation to obtain the veteran's occupancy certification. Cardinal may accept the occupancy certification at face value unless there is specific information indicating the veteran will not occupy the property as a home or does not intend to occupy within a reasonable time after loan closing (within 60 days of closing). Where doubt exists, the test is whether a reasonable basis exists for concluding that the veteran can and will occupy the property as certified.

Occupancy After Retirement

If the veteran states that he or she will retire within 12 months and wants a loan to purchase a home in the retirement location:

- Verify the veteran's eligibility for retirement on the specified date
 - Include a copy of the veteran's application for retirement submitted to his or her employer

- Carefully consider the applicant's income after retirement
 - If retirement income alone is insufficient, obtain firm commitments from an employer that meet the usual stability of income requirements

Note: Only permitted with retirement on a specific date within 12 months.

Occupancy by Veteran's Spouse or Dependent Child

- Occupancy (or intent to occupy) by the spouse or dependent child satisfies the occupancy requirement for a veteran who is on active duty and cannot personally occupy the dwelling within a reasonable time.
- In the case of a dependent child, the veteran's attorney-in-fact or legal guardian of the dependent child must make the certification and sign VA Form 26-1820, Report and Certification of Loan Disbursement.
- Occupancy by the spouse may also satisfy the requirement if the veteran cannot personally occupy the dwelling within a reasonable time due to distant employment other than military service. In these specific cases, consult the Regional Loan Center (RLC) to determine if this type of occupancy meets VA requirements.

Note: The cost of maintaining separate living arrangements should be considered in underwriting the loan.

Single or married service members deployed from their permanent duty station are considered to be in a temporary duty status and are able to certify intent to occupy. There is no need to have a spouse certify occupancy.

Power of Attorney (POA)

Cardinal will allow the use of a limited power of attorney ("POA") or a military durable POA for the execution of final closing documents on certain loan products including the security instrument and/or note, however, the initial loan application and initial loan disclosures must always be executed by the borrower.

All POA's require Advanced Approval from underwriting; underwriting will complete the POA checklist.

Cardinal will, under no circumstances, allow the use of a POA to be used for changes to ownership or vesting on a refinance transaction.

The loan file must retain a complete copy of all documents reviewed during the approval process.

General Requirements

- The borrower must sign the completed loan application, disclosures, and credit verification documents. The POA may only be used for the execution of the security instrument, note, and other closing documents
- A letter explaining why a POA is being used must be provided by the borrower(s); an email is acceptable if the electronic communication requirements are met
- Verify that the Veteran is alive at the time of loan closing, whether or not the Veteran is an ADSM in the military. If on active military duty, the Veteran must not be missing in action (MIA).
 - The Alive and Well certification may be accomplished using one of the acceptable methods listed below:
 - Email from the Veteran
 - If an active duty veteran can be reached at their respective (.gov) or (.mil) email and replies attesting they are alive and well, that is acceptable without contacting the commanding officer
 - Fax or letter from the Veteran
 - Email, fax or letter from the Commanding Officer
 - Statement from the Commanding Officer to authorized person
 - Must be on command letterhead with name, rank/title, date and contact information
 - Electronic or wet signatures are permitted

- In the State of Mississippi, POA's may be used on primary residences only if the attorney-in-fact or designee is NOT the spouse of the borrower

Smart Document Reference: 700.200 - Alive and Well Certification

Reviewing the POA

- Except in the case of a durable military POA, the POA must be specific to Cardinal's loan by referencing the subject property's physical address or legal description
- The borrower(s) name on the POA must match the borrower's legal name on the loan application and closing documents exactly
- The borrower(s) signature on the POA must be notarized
- Signatures on the POA match signatures on other documents in the loan file
- The notary acknowledgment must be complete, legible, and signed within 90 days of the closing date
- The POA must be signed and dated prior to the date of the loan closing
- The POA must be notarized in the United States or at a U.S. Embassy
- The person executing the POA, for the borrower not attending closing, must be either the attorney or relative of the borrower who is not able to attend the closing
- There must be more than one borrower on the loan and at least one of the borrower(s) must be physically present at closing unless the attorney-in-fact is the borrower's relative or attorney.

Allowable Attorneys-in-Fact or Agents for POA

Except as otherwise required by applicable law, or unless they are the borrower's relative*, none of the following persons connected to the transaction shall sign the security instrument or note as the attorney-in-fact or agent under a power of attorney:

- The broker/lender

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- Any affiliate of the broker/lender
 - Any employee of the broker/lender or any other affiliate of the broker/lender
 - The loan originator
 - The employer of the loan originator
 - Any employee of the employer of the loan originator
 - The title insurance company providing the title insurance policy or any affiliate of such title insurance company (including, but not limited to, the title agency closing the loan), or any employee of either such title insurance company or any such affiliate
 - Any real estate agent with a financial interest in the transaction or any person affiliated with such real estate agent

*Relative is defined as any of the following:

- Spouse or domestic partner of the Borrower
- Child, parent, or grandparent of the Borrower
 - A child is defined as a son, stepson, daughter, or stepdaughter
 - A parent or grandparent includes a stepparent/grandparent or foster parent/grandparent
- Legally adopted son or daughter of the Borrower
- Foster child of the Borrower
- Brother, stepbrother, sister or stepsister of the Borrower
- Uncle or aunt of the Borrower
- Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the Borrower

Title Requirements

- No changes to the property vesting may be made on a refinance transaction
- The title company must review the POA and issue the title policy with no exceptions pertaining to the POA

- The title company must record the original POA at the time of closing

Purchase Contract

VA permits only the individuals listed as borrowers on the loan application to sign the Purchase Contract, unless an explanation is provided by the veteran addressing any additional parties.

Refinance Seasoning and Mortgage History

Ginnie Mae, the investor for VA transactions, issued [APM 17-06](#) on December 7, 2017, which addressed new requirements for VA Type 1 Cash-Out (Rate and Term), Type 2 Cash-Out refinance transactions, and VA IRRRL credit and non-credit qualifying transactions. Subsequent APM notices have been issued and are referenced in [Resource | Government Loan Seasoning Requirements](#).

Several of the Ginnie Mae requirements are more restrictive than VA; as such, both VA and Ginnie Mae requirements will need to be met in order to ensure compliance.

Forbearance and Loan Modification

Refer to the below table when considering the applicability of seasoning requirements.

Term	Definition
Forbearance	<p>A Loan Forbearance is a change to one or more terms of a Borrower’s Mortgage repayment agreement, <i>without</i> a change to the terms of the original Note.</p> <p>Forbearance Plans may allow for a period of reduced or suspended payments and may provide specific terms for repayment.</p>
Loan Modification	<p>A Loan Modification is a permanent change to the repayment terms of the original Note. A loan modification is not a new note, nor is it a replacement of the original note, but is simply an addendum to the original document, changing the terms as agreed.</p> <p>Modifications may include a change to the terms of repayment to reduce the monthly obligation, to extend the term of the original loan, to reduce an interest rate, and/or to forbear or reduce the principal balance.</p>

Seasoning

Refer to the [Resource | Government Loan Seasoning Requirements](#) document for specific requirements for VA IRRRL and both Type I and Type II Cash-Out Refinances.

Ginnie Mae requirements related to loan seasoning supersede VA requirements and indicated seasoning requirements apply, irrespective of whether the existing loan is VA guaranteed, except for the following guaranty certificate exemptions:

- Loans Refinancing of Non-Mortgage Debt
 - Seasoning restrictions do not extend to the payoff of Non-Mortgage debt.
- Loans Refinancing Mortgages Without Scheduled Monthly Payments
 - Refinance of a loan made to pay off a mortgage which provides for no monthly payments is not subject to Seasoning Requirements. An example of this would be a new loan used to pay off a reverse mortgage for which no monthly payments are scheduled.

Refinance Comparison Chart

Topic	Interest Rate Reduction Refinancing Loan (IRRRL)	Cash-Out Refinance ⁴ Type I New loan amount does not exceed payoff amount		Cash-Out Refinance ⁴ Type II New loan amount does exceed payoff amount	
		VA to VA	Non-VA to VA	VA to VA	Non-VA to VA
Purpose	Refinance an existing VA Loan at a lower interest rate	To pay off lien(s) of any type - can also provide cash to the borrower. Even if cash is not taken out, any refinance that is not an IRRRL is a Cash-Out Refinance			
Appraisal	Only required for certain fixed to ARM refinances. See Net Tangible Benefit section for full details.	Required			
Cash to Borrower	Not permitted	Borrower can receive cash for any purposes acceptable to the lender			

Disclosure - Comparison	<p>Required at application and closing. Must include Fee Recoupment⁵ info and compare:</p> <ul style="list-style-type: none"> • VA Loan ID • Loan Amounts • Loan Terms • Original and current borrower names • Monthly payments • Interest Rates 	<p>Required at application and closing. Must include:</p> <ul style="list-style-type: none"> • Loan amount vs. payoff amount • Loan type • Interest rate • Loan term; remaining loan term of the existing mortgage vs the refinancing loan term • LTV • Total amount the Veteran will have paid after making all payments as scheduled • Home equity being removed from property 	
Discount Points	<p>Reasonable points can be paid - only two of these points can be included in the loan amount</p>		
Entitlement	<p>Veteran re-uses the entitlement used on the existing VA loan - the IRRRL does not impact the amount of entitlement the veteran has in use</p>	<p>Must have sufficient available entitlement - If existing VA loan on the same property is being refinanced, entitlement can be restored for the refinance</p>	
Fee Recoupment	<p>Required</p> <ul style="list-style-type: none"> • For loans resulting in a lower PI payment: All fees and costs must be recouped on or before 36 months after the date of loan closing. • For loans resulting in the same or higher PI payments: Lender must certify that Veteran has incurred no fees other than taxes, escrow and funding fee. 	<p>Required</p> <ul style="list-style-type: none"> • Recoupment of all fees (excluding funding fee), closing costs, expenses (other than taxes, escrow, insurance, and like assessments), and incurred costs must not exceed 36 months from the date of loan closing. 	<p>Not Required</p>
Guaranty	<p>Guaranty is at least 25 percent in all cases</p>	<p>Maximum guaranty is the same as for purchases</p>	
Interest Rate	<ul style="list-style-type: none"> • Fixed Rate to Fixed Rate: New rate must be no less than .5% lower 	<ul style="list-style-type: none"> • Fixed rate to Fixed Rate: .5% reduction in rate 	<p>No Requirement</p>

	<ul style="list-style-type: none"> ● Fixed Rate to ARM: New rate must be no less than 2% lower. Discount points to achieve rate reduction must be paid at closing or up to 2 points may be added to principal amount of loan in the following cases: <ul style="list-style-type: none"> ○ The rate reduction is not solely due to discount points as the current rate environment is favorable, OR ○ Lower rate is due solely to discount points. Points charged are 1% or less and new total loan balance (including all fees) is < 100% LTV* ○ Lower rate is due solely to discount points. Points charged are 2% or less and new total loan balance (including all fees) is < 90% LTV* <p><i>*Lenders must obtain an exterior only or full appraisal to determine LTV</i></p>	<ul style="list-style-type: none"> ● Fixed Rate to ARM: New rate must be 2% lower and the new rate can't be produced solely from discount points unless: <ul style="list-style-type: none"> ○ The points are paid at closing and; ○ When the points are 1% or less the new LTV is 100% or less or ○ When the points exceed 1% the new LTV is 90% or less 	
Lender's Certification of Qualification	Required when new payment exceeds previous payment by 20% or more	N/A	
Loan Seasoning Requirements²	Required		
Maximum Loan	Existing VA loan balance, plus allowable fees and charges, plus up to two discount points, plus the cost	100% of the reasonable value of the property indicated on the NOV (funding fee must be included in the loan amount when determining LTV)	

	of any energy improvements, plus the VA FF	
Maximum Loan Term	Existing VA loan term plus 10 years, not to exceed 30 years + 32 days	30 years + 32 days
Monthly Payment Amount	Payment must be lower than that on an existing VA loan (unless the ARM is being refinanced, a term is shortened, or energy efficiency improvements are being included)	Not Required
Net Tangible Benefit	Satisfied through fulfillment of Interest Rate requirement	<p>New loan must satisfy at least one of the of the following:</p> <ul style="list-style-type: none"> ● The new loan eliminates monthly mortgage insurance; ● The term of the new loan is shorter than the term of the loan being refinanced; ● The interest rate on the new loan is lower than the interest rate on the loan being refinanced; (See specific requirements for VA to VA Type I loans) ● The principal and interest payment on the new loan is lower than the principal and interest payment on the loan being refinanced; ● The new loan results in an increase in the borrower’s monthly residual income; ● The new loan refinances an interim loan to construct, alter, or repair the home; ● The new loan amount is equal to or less than 90 percent of the reasonable value of the home, or; ● The new loan refinances an adjustable rate loan to a fixed rate loan
Occupancy	Veteran or spouse of an active duty servicemember must certify to current or prior occupancy	Veteran or spouse of an active duty servicemember must certify as to intent to occupy
Refinance of Other Liens	Cannot refinance other liens - can only refinance the existing VA loan	Can refinance any type of lien(s)

¹LTV must be based on a new full or exterior-only appraisal ordered through a lender's own appraisal management process. The veteran may pay for one appraisal.

² Loan seasoning is met when the following conditions are met on the loan closing date;

- The first payment due date (Type I), or first payment made (Type II) was 210 days or more prior to the closing date of the refinancing loan; and
- Six consecutive monthly payments have been made on the loan being refinanced.
 - For loans being refinanced within 1 year from the date of closing, lenders must obtain a payment history/ledger documenting all payments, unless a credit bureau supplement clearly identifies all payments made in that timeframe. If the loan is selected for audit by VA, the lender must include the payment ledger/history and/or credit bureau supplement of the loan being refinanced in the loan file for VA review.
- **Note: all seasoning requirements must meet the more restrictive direction of VA or GNMA;** refer to the [Resource | Government Loan Seasoning Requirements](#) document for guidance

³ The recoupment period is calculated by dividing all fees (not including VA funding fee), expenses, and closing costs included in the loan and paid outside of closing by the reduction of monthly principal and interest (PI). If the loan being refinanced has been modified, the reduction of monthly PI should be computed using the modified monthly PI of the loan being refinanced.

⁴ Ginnie Mae issued APM 19-05 in August of 2019 stating that VA Cash-Out Refinances in excess of 90% LTV would be pooled differently than loans not exceeding 90% LTV. This may result in some secondary markets creating overlay restrictions, but it has not resulted in a VA guideline change.

⁵ The Fee Recoupment calculation for loan comparison is different from the Fee Recoupment calculation required for loan guaranty. Refer to Circular 26-19-22 and 26-19-22 Change 1.

VA-Guaranteed Cash-out Refinance Loans

Cash-out Refinance

A VA cash-out refinancing loan is a refinance of any existing mortgage(s) and/or other indebtedness secured by a lien(s) of record.

Refinancing loans made on properties without an existing mortgage or lien of record are **not** eligible for guarantee by VA.

A cash-out refinance may also be made to refinance the following:

- An interim construction loan (a construction loan that does not provide for permanent financing), regardless of whether there is a change in the original loan amount,
- The balance of the purchase of land on which new construction is to be financed through the proceeds of the refinancing loan,
- The balance of an existing land sale contract relating to the Veteran's home or farm residence,
- A loan for the purchase of, and is secured by, a manufactured home in order to purchase the lot on which the manufactured home is or will be permanently affixed, and

- A refinance of any other recorded lien against the property such as, but not limited to a mechanics lien, second mortgage, etc.

There are two types of VA cash-out refinancing loans, Type I (Rate and Term) and Type II (Traditional Cash-Out). The type of cash-out refinancing loan is determined by the payoff amount of the loan being refinanced compared to the principal amount of the new loan.

The lien to be paid off is not required to be in the Veteran's name. For instance, it could be in the spouse's name, provided at the time of the new loan closing the Veteran is an owner.

VA does not prescribe limitations for how the Veteran may use cash received from the refinancing loan. Thus, a letter of explanation for the use of the cash proceeds is not required.

Exception

Although VA requires a first lien be secured against the property on a cash-out refinance transaction, an exception for cases involving manufactured homes that have not yet been de-titled (and where our proceeds are intended to pay off a vehicle loan classified as an installment loan versus a mortgage) is permitted.

VA has clarified that as long as a lien exists against the vehicle (the manufactured home) and that is the lien being paid off with our transaction, a refinance is permitted.

Type I Cash-out (Rate and Term) Refinance

A Type I cash-out refinance is a refinancing loan in which the new loan amount (including the VA funding fee) does not exceed the payoff amount of the loan being refinanced. A Type I cash-out refinance is distinct from an IRRRL on the basis that it may be a VA-guaranteed loan or a non-VA loan that is being paid off through the refinance.

Refer to [Chapter 15 Texas Section 50\(a\)\(6\) & \(a\)\(4\)](#) for guidance on an Owealty of Partition lien.

Type II Cash-out Refinance

A Type II cash-out refinance is a refinancing loan in which the new loan amount (including the VA funding fee) exceeds the payoff amount of the loan and/or lien(s) of record being refinanced. In a Type II cash-out, the Veteran may remove equity from the subject property.

Lien Position Requirement

The refinancing loan must be secured by first lien position on the property. All other lien holders must agree to subordinate to the VA refinancing loan. Copies of any subordination agreements must be included in the loan file.

Ownership Requirement

The Veteran must have ownership/title of the property securing the loan before, or at the time of closing. There is not a required length of time that the Veteran must have been on title prior to loan closing; however, [Government Loan Seasoning Requirements](#) must be met.

Maximum Loan Amount

The maximum loan amount may not exceed 100 percent of the reasonable value (as determined by VA) of the property securing the loan.

The funding fee may be included in the new loan amount, except that any portion of the funding fee that would cause the new loan amount to exceed 100 percent of the reasonable value of the property must be paid at closing.

Payment History

As outlined within [Circular 26-19-05](#), if the loan being paid off has a closing date within one year (12 months), a payment ledger, account history, verification of mortgage or credit supplement must be provided to document all payments made since the first payment due date.

Refer to the [Resource | Government Loan Seasoning Requirements](#) for payment history requirements, along with the applicable Product Snapshot.

Net Tangible Benefit Test (NTB)

All cash-out (Type I or Type II) refinancing loans must provide a Net Tangible Benefit (NTB) to the veteran. A NTB test with the following information must be furnished to the Veteran no later than the third business day after receiving the loan application, and again at loan closing:

Each cash-out refinancing loan must provide at least one NTB to the Veteran:

- If the loan being refinanced has been modified, the modified terms should be used to evaluate the NTB
- If the loan being refinanced is an ARM, the interest rate and P&I payment at the time of the new loan closing should be used to evaluate the NTB
- If the loan being refinanced has a temporary buydown, the note interest rate and full P&I payment should be used to evaluate the NTB

The NTB requirement is met if the loan satisfies at least one of the following:

- The new loan eliminates monthly mortgage insurance, whether public or private, or monthly guaranty insurance; or
- The term of the new loan is shorter than the remaining term of the loan being refinanced; or
- The interest rate on the new loan is lower than the interest rate on the loan being refinanced; or
- The LTV of the new loan is equal to or less than 90% of the reasonable value of the home; or
- The payment (P&I) on the new loan is lower than the payment (P&I) on the loan being refinanced.
 - If the monthly P&I payment changed due to a loan modification or adjustable-rate mortgage, the monthly P&I payment reduction should be computed based on the current monthly P&I payment. The monthly P&I payment should only include the first lien mortgage even if the refinance is made to consolidate multiple mortgages on the property securing the loan; or
- The new loan refinances an interim loan to construct, alter, or repair the home. Interim loans to construct do not include one-time close construction to permanent loans that provided for permanent financing; or
- Refinance of an ARM to a fixed-rate mortgage; or
- The new loan results in an increase in the Veteran's monthly residual income

- The current residual income at the time of loan application must improve after our loan closing. A comparison of the residual income should be completed based on the proposed loan terms with the residual income that would exist if the refinance was not completed. This can be accomplished by paying off additional consumer debt with our cash-out refinance transaction. Note: the monthly payment(s) of consumer debt being paid off must be greater than any increase to the subject mortgage payment.
 - Example
 - The monthly payment of the consumer debt being paid off is \$600
 - The monthly payment of the mortgage debt being paid off is \$2400
 - The monthly payment of the new mortgage is \$3200
 - This transaction would not be acceptable as the increase to the mortgage payment (\$800) is greater than the monthly payment of the debt(s) being paid off (\$600)
- When the borrower is using proceeds from our cash-out transaction to pay off court ordered debt, the debt will reflect as a liability to be paid at closing; the payoff of the debt will result in an increase to the borrower's residual income and could satisfy the Net Tangible Benefit (NTB) requirement. For example:
 - The divorce decree states our borrower owes an ex-spouse \$20,000. This amount should be added as a liability with a 5% monthly payment in the liability screen; complete the residual income calculation prior to paying off the court ordered debt and again after to determine whether the NTB has been met.
- Note: If the monthly PI payment is scheduled to change on the loan being refinanced, due to an ARM, on or before the closing date of the proposed refinance transaction, the adjusted PI amount for the loan being refinanced must be used to determine the pre-refinance residual income

A comparison of key loan characteristics or terms for the existing and refinancing loan, including:

-
- Refinancing loan amount (including funding fee if financed) vs. the payoff amount of the loan being refinanced,
 - Loan type (i.e., fixed, adjustable) of the refinancing loan vs. the loan being refinanced,
 - Interest rate of the refinancing loan vs. the loan being refinanced,
 - Loan term of the refinancing loan vs. the remaining term of the loan being refinanced,
 - The total the Veteran will have paid after making all remaining payments (principal and interest), and mortgage insurance, as scheduled, for the existing loan and the proposed/new refinance loan.
 - LTV of the new loan vs. the loan being refinanced to the current value of the home.
 - Home Equity - must disclose the amount of home equity being removed from the home as a result of the new loan.

Type I Fee Recoupment

Fee recoupment is the length of time it will take the Veteran to recoup certain costs necessitated by the refinance. The fee recoupment period of certain loan fees, expenses, and closing costs must not exceed 36 months. This requirement applies to Type I Cash-out refinance loans made to refinance an existing VA-guaranteed home loan, regardless of the interest rate and/or loan term of the new loan.

Fee Recoupment Requirement

The VA Funding Fee, escrow, and prepaid expenses, such as insurance, taxes (including Mello-Roos), special assessments, and homeowner's association (HOA) fees, may be excluded from the calculations to meet the recoupment requirement. Lender credits and premium pricing may be used to offset allowable fees and charges. However, temporary buydown accounts and escrow accounts created to subsidize payments through an above market interest rate, or a combination of discount points and above market interest rate, are prohibited by VA. For VA purposes, such accounts are considered cash-advance on principal.

If the monthly PI payment changed due to a loan modification or ARM, the monthly PI payment reduction should be computed based on the PI payment at the time of the closing of the new refinancing loan. The monthly PI payment should only include the VA-guaranteed loan even if the refinance is made to consolidate multiple mortgages on the property securing the loan.

Note: If the monthly PI payment is not reduced as a result of the refinance, the lender may not charge the Veteran loan fees, closing costs, or expenses other than taxes, amounts held in escrow, and the VA funding fee. Lender credits may be subtracted from the charges made to the Veteran.

Divide all fees (not including the VA funding fee), expenses, closing costs included in the loan and paid outside of closing by the reduction of monthly principal and interest. If the loan being refinanced has been modified, the principal and interest reduction must be computed/compared to the modified principal and interest monthly payment.

Example:

P&I (VA loan being refinanced):	\$654.00
P&I (new VA refinancing loan):	\$604.00
Reduction of monthly P&I:	= \$50.00
Fees/expenses/closing costs:	\$1436.49
Reduction of monthly P&I:	÷ by \$50.00
Fee Recoupment Period:	= 29 months (28.72 rounded)

Lender’s Certification

The recoupment period of fees, expenses, and closing costs (included in the loan and paid outside of closing) does not exceed 36 months from the date of loan closing. The lender must certify the recoupment period to VA to obtain a Loan Guaranty Certificate. This requirement only applies to TYPE I cash-out refinancing loans made to refinance an existing VA-guaranteed home loan.

Type I Interest Rate Requirements

All cash-out refinancing loans must meet a net tangible benefit requirement. Additionally, if the loan is a Type I cash-out refinance made to refinance a fixed-rate loan, the new loan must have a lower interest rate as specified below.

Note for modified loans: If the interest rate on the VA-guaranteed loan being refinanced has changed due to a loan modification, the Type I cash-out refinance interest rate must be reduced based on the modified interest rate, appropriately.

- Fixed Rate to Fixed Rate: The interest rate of the refinancing loan may not be less than 0.5 percent (50 basis points) of the interest rate on the loan being refinanced.
- Fixed Rate to Adjustable Rate: The interest rate of the refinancing loan may not be less than 2 percent (200 basis points) of the interest rate on the loan being refinanced.
 - Discount Points > 1%: If discount points are included in the refinancing loan amount, the loan amount may not exceed an LTV of 90%.
 - Discount Points <= 1%: If discount points are included in the refinancing loan amount, the loan amount may not exceed an LTV of 100%.
- Adjustable Rate (ARM) to Fixed Rate: There is not a requirement to reduce the interest rate. Therefore, the interest rate may increase on these transactions.

Texas Mechanic's Lien Contract

In order to refinance a mechanic's lien as a Rate and Term refinance (Type I) in Texas, a Mechanic's Lien Contract (MLC), which is an agreement signed by the builder, the owner, and the owner's spouse **prior to commencement of construction**, must have been recorded in the real property records; the title commitment would identify the MLC.

If the builder is only filing a Mechanic's Lien Affidavit, which is a document signed only by the builder claiming that the builder has not been paid for materials furnished and services rendered, this would not create a valid lien on homestead. As a result, the only way to place a valid lien on homestead to pay off the builder would be a TX50(a)(6) loan, which is ineligible utilizing VA financing.

Cash-Out Refinance Comparison Matrix

Item	Type I: VA to VA	Type I: Non-VA to VA	Type II: VA to VA	Type II: Non-VA to VA
Loan amount can exceed payoff (including funding fee)	No	No	Yes	Yes
Veteran can remove equity from the property	No	No	Yes	Yes
Fee Recoupment Requirement	Yes	No	No	No
Requirement to reduce the interest rate	Yes	No	No	No
Discount point restrictions	Yes	No	No	No
NTB requirement	Yes	Yes	Yes	Yes
Loan Seasoning <i>(Note: all seasoning requirements must meet the more restrictive guidance of VA or GNMA)</i>	Yes	Yes	Yes	Yes
Initial and Final Loan Comparison Disclosures	Yes	Yes	Yes	Yes
Home Equity disclosure	Yes	Yes	Yes	Yes

Interest Rate Reduction Refinance (IRRRL)

An Interest Rate Reduction Refinance Loan (IRRRL) is a streamline refinance designed to lower the monthly principal and interest payments on the current VA mortgage.

The maximum cash back to the borrower resulting from closing adjustments is \$500.00. IRRRL transactions in the state of Texas can receive no cash back (zero).

Generally, Cardinal Financial will only originate or purchase loans that meet the safe harbor Qualified Mortgage requirements. Standard VA loans (non-IRRRL's) automatically meet safe harbor Qualified Mortgage Requirements as long as the loan meets Cardinal Financial's and VA's standard VA requirements. IRRRLs however are subject to additional requirements to meet the safe harbor QM regulations. Rebuttable Presumption IRRRLs are not permitted. VA IRRRLs must meet a two-part test to be eligible for safe harbor and also eligible for the waiver of the verification of income. The tests are dependent on one another and each loan must meet all of the requirements of each.

Test A: Safe Harbor Test

- The new loan must have a closing date that is at least 6 months from the old note date, at least 6 payments have been made on the original loan, and the Veteran has not had any 30-day late payments (1x30) during the 6 months preceding the new loan's closing date.
- All allowable fees and charges (including funding fee) that are charged to the borrower (financed or paid) must be recouped through interest savings within 36 months of the closing date of the new loan. Premium pricing, to the extent these funds are used to offset allowable fees, may be excluded from the calculation. All IRRRLS must meet the recoupment requirement. There are no exceptions.
- All conditions of the income verification waiver are met (Test B)

Test B: Income Verification Test

- Loans being refinanced may not have any 30-day late payments (1x30) during the 6 months preceding the new loan's closing date.
- Prior outstanding balance of the loan being refinanced (including interest) cannot increase except for allowable fees and charges being financed (This is referred to as the Total points and fees other than TILA defined bona fide) payable in connection with the proposed loan cannot exceed 3% of the principal amount of the new loan

- The interest rate on the new loan must be lower than the note rate on the loan being refinanced
- The new loan must be fully amortizing (no interest only) and must not have a balloon payment at the end of the term

Our system of record will test for both Test A and Test B and fire critical alerts if not met.

For an IRRRL that results in a lower monthly principal and interest (PI) payment, the recoupment period of fees, closing costs, and expenses other than taxes, amounts held in escrow, and fees paid under chapter 37 (e.g., VA funding fee collected under 38 U.S.C. § 3729), incurred by the Veteran, does not exceed 36 months from the date of the loan closing.

For an IRRRL that results in the same or higher monthly PI payment, the Veteran has incurred no fees, closing costs, or expenses other than taxes, amounts held in escrow, and fees paid under chapter 37 (e.g., VA funding fee collected under 38 U.S.C. § 3729).

IRRRL Eligible Transactions

- Attached/detached SFRs
- Attached/detached PUDs
- Condominium
 - Require VA Approval (including 2-unit condos)
- 1–4 Units
 - Primary Residence
 - 1-4 Unit
 - One unit must be occupied by Veteran
 - Secondary/Vacation Home
 - 1-unit only

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- The loan file must contain documentation that the Veteran previously occupied the subject property as their primary residence at one point in time
 - Investment Property
 - 1-4 Unit
 - The loan file must contain documentation that the Veteran previously occupied the subject property as their primary residence at one point in time
 - Modular Homes
 - Manufactured Housing
 - Transactions with secondary financing made or held by a private entity, bank, family member, governmental entity or non profit that meet the parameters outlined in the lending guide
 - Lava Zones 1 and 2
 - Two Veteran/ Split Entitlement
 - A loan involving two or more veterans who are not married to each other, and both using their entitlement.
 - Per Circular [Circular 26-19-13/Circular 26-19-13 Change 1](#), these transactions can be underwritten and closed using Cardinal's automatic authority.
 - VA Prior Approval loans:
 - Vet/Non-Vet Joint Loans
 - A loan involving one veteran and one non-veteran (not spouse)
 - Loans made to veterans receiving VA non-service related pension
 - IRRRL's made to refinance delinquent VA guaranteed loans

A loan involving a veteran and his or her spouse will not be treated as a "joint loan" if the spouse:

- Is not a veteran, or
- Is a veteran who will not be using his or her entitlement on the loan.

Note: A loan to a veteran and fiancé who intend to marry prior to loan closing and take title as veteran and spouse will be treated as a loan to a veteran and spouse (conditioned upon their marriage), and not a joint loan. A copy of the borrowers’ marriage certificate or other proof of marriage showing the marriage preceded loan closing must be retained in the loan file. A marriage license is inadequate.

VA regulations require that every VA loan be secured by a first lien on the property. Properties owned free and clear are not eligible for refinancing.

Non-Credit Qualifying

General Guidelines

All IRRRLs must be manually underwritten. The IRRRL must pay off the existing VA guaranteed mortgage reflected on the COE.

In some cases, a copy of the existing Note may be required to verify the Loan Identification Number.

Borrower Eligibility

Generally, borrowers obligated on the original VA loan must be the same on the new loan and the veteran must still own the property.

The following table addresses if a refinance can be underwritten as an IRRRL when there is a change in the borrowers other than the veteran:

Parties Obligated on Old VA Loan	Parties to be Obligated on New Loan	IRRRL Eligible	Must Credit Qualify as a result of Proposed Status
Unmarried Veteran	Veteran and New Spouse	Yes	N/A
Unmarried Veteran	Spouse Only (Deceased Veteran)	No	Yes

Veteran	Different Veteran Who Substituted Entitlement	Yes	N/A
Veteran and Spouse	Divorced Veteran Only	Yes	N/A
Veteran and Spouse	Veteran and Different Spouse	Yes	N/A
Veteran and Spouse	Spouse Only (Deceased Veteran)	Yes	N/A
Veteran and Spouse	Divorced Spouse Only	No	Yes
Veteran and Spouse	Different Spouse Only (Deceased Veteran)	No	Yes
Veteran and Non-Veteran (joint obligors)	Veteran Only	Yes	N/A
Veteran and Non-Veteran (joint obligors)	Non-Veteran Only	No	Yes
Married Veteran (excluded spouse from initial transaction)	Married Veteran and Spouse (same spouse from initial transaction)	Yes	No

Credit Qualifying due to Change in Obligor

Generally, the party(ies) obligated on the original loan must be the same on the new loan (and the veteran must still own the property).

Although VA does not require credit/income documentation or re-underwriting of IRRRL's when there has been a change in obligors, they do require an ability to repay (ATR) be documented in the loan file. For the above referenced scenarios, the loan must be Credit Qualified when there is a change in obligors to satisfy VA's ATR requirement.

Assets

No verification of assets is required.

Funding Fee

A Funding Fee of 0.50% is required on all IRRRLs unless the veteran has a qualifying exemption.

Guaranty

A 25% minimum guaranty is required for all IRRRLs regardless of the dollar amount of the guaranty being transferred from the prior loan.

Loan Limit

The maximum total loan amount may include:

- The existing VA payoff
- VA Funding Fee Allowable fees and charges
- Up to two (2) discount points

Payment History

Refer to the [Resource | Government Loan Seasoning Requirements](#) for payment history requirements, along with the applicable Product Snapshot.

Seasoning, Recoupment, Net Tangible Benefit and Safe Harbor

If the IRRRL meets the three requirements listed below, it will be considered a Safe Harbor QM and the underwriter will not be required to perform income verification underwriting:

1. Government seasoning met, and
2. Fee Recoupment: All Interest Rate Reduction Refinance Loan(s) (IRRRLs) will require a Veteran's Statement; this Statement must be provided to the Veteran with the initial disclosure documents no later than the third business day after the loan application and a final Statement at closing.
 - a. Certify that all fees and incurred costs shall be recouped on or before the date that is 36 months after the date of the loan, as determined by the date of the loan Note. The recoupment calculation is described in Circular [26-19-22 Change 1](#), and is the result of the lower monthly payments of the refinanced loan. If the new Principal and Interest

payment is the same or greater than the existing Principal and Interest payment regardless of why (term reduction, ARM to fixed) no charges can be charged to the veteran except the funding fee and the payment of interim interest and escrow related items.

- b. If the IRRRL reduces the loan term, or converts an existing ARM to a fixed rate mortgage, and the payment increases, recoupment calculation is not possible. Instead, if the new **Principal and Interest payment is the same or greater than the existing Principal and Interest payment regardless of why (term reduction, ARM to fixed) no charges can be charged to the veteran except the funding fee and the payment of interim interest and escrow related items.** Credit qualification is required only if the proposed P&I is 20% or more higher than the existing payment.
- c. The veteran must sign the Statement acknowledging the effect of the refinancing loan on the loan payments and interest rate.
- d. If the monthly payment (PITI) increases by 20 percent or more, the Cardinal underwriter must certify that the veteran qualifies for the new monthly payment.

Refer to [Circular 26-19-22 Change 1](#) for additional guidance on the calculation of statutory fee recoupment.

Recoupment Charge Applicability	
Included in Recoupment Calculation	Excluded From Recoupment Calculation
<ul style="list-style-type: none"> ● Allowable fees and charges (including fees included in the loan amount or paid outside of closing) ● Credit Report (if required) ● Appraisal Fee (if applicable and the lender requires Veteran to pay) ● Reasonable discount points <p>Note: Lender credits may be used to offset allowable fees and charges (including discount points)</p>	<ul style="list-style-type: none"> ● VA funding fee ● Per diem interest ● Insurance escrow account or installments ● Property Taxes escrow account or installments (including delinquent taxes) ● Special assessments ● Homeowners' association (HOA) fees

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3. Net Tangible Benefit. All Veterans or borrowers must be provided with a net tangible benefit (NTB) test as follows:
- a. A case in which the previous VA loan has a fixed interest rate and the new refinanced loan will have a fixed interest rate:
 - i. The new refinanced loan must have an interest rate that is not less than 50 basis points (.50 less in interest rate) less than the previous loan. For example, if the interest rate of the loan being refinanced is 3.75% (fixed), then the interest rate of the refinance loan may not be greater than 3.25% (fixed).
 - b. A case in which the previous VA loan has a fixed interest rate and the new refinanced loan will have an adjustable interest rate:
 - i. The new refinanced loan must have an interest rate that is not less than 200 basis points (2%) lower than the interest rate of the loan being refinanced. For example, if the interest rate of the loan being refinanced is 3.75% (fixed), then the initial interest rate of the refinance loan may not be greater than 1.75% (ARM).
 - ii. Determining Appraised Value for Fixed-to-ARM IRRRLs when Discount Points are Charged: Per [Circular 26-19-22](#), a new appraisal will enable lenders to determine the LTV for Fixed-to-ARM IRRRL transactions.
 1. These appraisals will not be ordered through WebLGY or the VA Fee Panel. An approved AMC or Mercury should be used for the appraisal order.
 2. Acceptable forms of appraisal are:
 - a. Exterior-Only Inspection Residential Appraisal Report (Fannie Mae 2055)
 - b. Uniform Residential Appraisal Report (Fannie Mae 1004)

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- c. Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Fannie Mae 1075)
 - d. Individual Condominium Unit Appraisal Report (Fannie Mae 1073)
 - e. Other industry-accepted appraisal reports for manufactured homes
 3. If the Veteran is required to pay for the cost of the appraisal, the cost must be included as part of the recoupment cost. The Veteran may only be charged a reasonable and customary amount, and only charged for one appraisal.
 4. Loan-to-value is calculated by dividing the VA base loan amount arm(excluding the funding fee, if any) by the value determined in one of the appraisal reports noted above.
 5. After obtaining the VA Loan Identification Number (LIN), the appraisal may be uploaded in WebLGY. If the appraisal is not uploaded prior to loan guaranty, it must be uploaded to the correspondence link of the VA LIN in WebLGY.
 6. When discount points are not charged on a Fixed-to-ARM IRRRL, an appraisal is not required.
 7. If discount points are charged but a corresponding credit is applied so the net effect is the Veteran is not paying discount points, no appraisal is required.
- c. If the new Principal and Interest payment is the same or greater than the existing Principal and Interest payment regardless of why (term reduction, ARM to fixed) no charges can be charged to the veteran except the funding fee and the payment of interim interest and escrow related items.**

- d. The lower interest rate is not produced solely from discount points. In other words, the interest rate environment is such that some portion of the lower interest rate on the refinancing loan is the result of favorable changes in the market as compared to the Veteran's current rate. OR
- i. The lower interest rate is produced solely from discount points (i.e. the interest rate environment is such that a lower interest rate cannot be achieved without charging discount points); discount points equal to or less than one discount point are added to the loan amount, and the resulting loan balance after any fees and expenses maintains a loan-to-value (LTV) ratio of 100% or less. OR
 - ii. The lower interest rate is produced solely from discount points (i.e., the interest rate environment is such that a lower interest rate cannot be achieved without charging discount points); more than one discount point is added to the loan amount, and the resulting loan balance after any fees and expenses maintains an LTV ratio of 90% or less. As a reminder, while the Veteran may pay any reasonable amount of discount points in cash, no more than two discount points can be included in the loan amount of an IRRRL.

Recoupment Charge Applicability	
Included in Recoupment Calculation	Excluded From Recoupment Calculation
<ul style="list-style-type: none"> ● Allowable fees and charges (including fees included in the loan amount or paid outside of closing) ● Credit Report (if required) ● Appraisal Fee (if applicable and the lender requires Veteran to pay) ● Reasonable discount points ● Note: Lender credits may be used to offset allowable fees and charges (including discount points) 	<ul style="list-style-type: none"> ● VA funding fee ● Per diem interest ● Insurance escrow account or installments ● Property Taxes escrow account or installments (including delinquent taxes) ● Special assessments ● Homeowners' association (HOA) fees

Occupancy

The veteran must certify that she/he currently or previously occupied the property as her/his primary residence. In addition, for an IRRRL, a certification that the spouse or dependent child (or children) previously occupied the dwelling as a home will satisfy the requirement.

The spouse or dependent child may certify occupancy for a veteran who is on active duty and cannot personally occupy the dwelling within a reasonable time.

In the case of a dependent child, the veteran's attorney-in-fact or legal guardian of the dependent child must make the certification and sign VA Form 26-1820, Report and Certification of Loan Disbursement.

Single or married service members deployed from their permanent duty station are considered to be in a temporary duty status and are able to certify intent to occupy. There is no need to have a spouse certify occupancy.

Online Status Inquiry

The VA case number provided by VA must be verified to match the VA case number on the existing loan before closing the IRRRL.

Online status of existing VA loan can be accessed using the VA website.

If the response from the RLC confirms the loan is an active VA guaranteed loan made to the veteran, a COE will not be required.

Use of the printout from the RLC Delinquent child support must be considered in the overall creditworthiness of the Veteran.

Recently Listed Property

Properties listed for sale are permitted if the listing was canceled at least one day prior to the loan application date.

Subordinate Financing

Any existing second lien needs to be subordinated to the proposed IRRRL. If the borrower is simultaneously obtaining a second mortgage the Cardinal underwriter must determine if there is a benefit to the borrower.

Social Security Validation

Verification of the borrower's social security number is required.

Rate Decrease and Maximum Term

Maximum Term - Is the original term of the existing loan plus 10 years but may not exceed 30 years plus 32 days

Rate Decrease - The interest rate of the new loan must be less than the interest rate of the existing VA loan unless refinancing an ARM to a fixed rate.

Loan Documentation

- VA Loan Summary Sheet (VA Form 26-0286)
- IRRRL Worksheet (VA Form 26-8923) VA Rate Reduction Refinance Certification
- Verification of VA Benefits (VA Form 26-8937) to verify if the borrower is exempt of Funding Fee
- VA Loan Analysis (VA Form 26-6393) if credit qualifying
- VA Federal Collection Policy Notice (VA Form 26-0503)
- Counseling Checklist for Military Homebuyers (VA Form 26-0592) if veteran borrower is on active duty
- Report and Certification of Loan Disbursement (VA Form 26-1820) Lender's Certification that prior loan was current (not 30 days or more past due)
- Borrower's Certification that he/she previously occupied the property as a primary residence

Credit Qualifying

In addition to compliance with all other IRRRL guidelines noted above, the veteran must be credit qualified for the increased monthly payment if the P&I payment will increase > 20%.

Income/Assets

The Cardinal underwriter must be able to determine the borrower has stable and reliable income to support the proposed housing payment along with any other recurring monthly obligations. A tri-merged in-file credit report along with the following documentation is required:

- Paystubs covering at least the most recent 30-day period
- Most recent two (2) years W-2s
- Verbal VOE for the borrower's current employment
- No asset verification is required

Citizenship

IRRRL Refinance transactions do not require verification of the borrower's citizenship.

IRRRL without Appraisal

An IRRRL without appraisal option is permitted on conforming and high balance loan amounts and on any property type (unless required by State law-refer to the applicable snapshot). An appraisal is required with Fixed-to-ARM transactions in which discount points are being charged.

Valuation for Fixed-to-ARM IRRRLs

A new appraisal is required to determine the LTV for Fixed-to-ARM IRRRLs. Such appraisals need not be ordered through VA's appraisal system; lenders can use their appraisal management and assignment process to complete a property value determination.

Loan-to-value is calculated by dividing the total loan amount by the value determined in one of the methods listed below. Acceptable appraisal reports to determine property value include:

- Exterior-Only Inspection Residential Appraisal Report (Fannie Mae 2055)
- Uniform Residential Appraisal Report (Fannie Mae 1004)
- Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Fannie Mae 1075)
- Individual Condominium Unit Appraisal Report (Fannie Mae 1073)
- Industry accepted appraisal reports for manufactured and multi-unit homes

The Veteran may only be charged a reasonable and customary amount, and only charged for one appraisal. For VA audit purposes, any appraisal report and invoice should be included in the loan file.

The loan must comply with ALL other guidelines noted above in the Non-Credit Qualifying section.

Other Refinancing Loans

Other refinancing loans are construction loans, installment land sale contracts, and loans assumed by veterans at interest rates higher than that for the proposed refinance. These loans may not exceed the lesser of:

1. VA reasonable value, or
2. The sum of the outstanding balance of the loan plus allowable closing costs and discounts (+) plus the VA funding fee (unless the borrower is exempt)

Loans to refinance a contract for deed when the Veteran is not the titled owner of the property. Use the lesser of:

1. VA reasonable value, or
2. Outstanding balance of the contract for deed, plus allowable closing costs (+), plus the VA funding fee (unless the borrower is exempt)

When the Veteran is the titled owner of the property, follow cash-out refinance guidelines.

Secondary Financing

Secondary financing is allowed provided the borrower is not placed in a substantially worse position than if the entire amount borrowed had been guaranteed by VA.

Assumability

The second lien must be assumable by creditworthy purchasers AND should never restrict the borrower's ability to sell the property. Assumption terms must not be more restrictive than VA requirements.

Cash Back

No cash back to the veteran from either the first or second mortgage when obtained simultaneously.

Documentation

The loan file must include documentation disclosing the source, amount, and repayment terms with the veteran and co-borrower's agreement to such terms.

Grace Period

The secondary financing must provide for a reasonable grace period before: a late charge becomes due, or commencement of foreclosure proceedings in the event of default.

Interest Rate

Purchase: Interest rate may not exceed industry standard rates.

Refinance: If subordinating existing junior lien, the second mortgage rate may exceed the new VA loan.

Loan Purpose

Proceeds from the second mortgage may be used for: closing costs, prepaids, and/or down payment (decreased entitlement or loan exceeding the applicable loan limits).

Secondary financing may not be used to pay any portion of the excess of the purchase price over the appraised value.

Qualifying

The veteran must qualify with the second lien payment.

Simultaneous Closing

Secondary financing must close simultaneously with the VA loan.

Soft/Silent Liens

Soft or Silent Liens that are secured against the property must be entered as secondary financing (not as gift funds). Such secondary financing has no scheduled repayments and the debt is forgiven over a period of time under the program guidelines.

Sources

Subordinate financing can be obtained from the following sources:

- Government agency
- Non-profit agency
- Builder
- Seller
- Private individuals

Subordinate Lien

The second mortgage must be subordinate to the VA first mortgage loans.

Note: Homeowner Benefit Agreements are a contract that gives an applicable realty company the exclusive right to list and sell a homeowner’s property, if and when they choose to sell, for a specified period (up to 40 years).

- A Memorandum of Homeowner Benefit Agreement is recorded and acts as a lien against the property.
- This type of agreement may be re-subordinated if state law allows, and if the title company confirms that they accept the subordination and Cardinal will remain in first lien position. Otherwise, the lien must be released.

Unacceptable Terms

The second mortgage cannot be subject to deed restrictions or equity sharing. The underwriter must consult with the VA RLC regarding any unusual terms, interest rate, etc. to determine compliance with VA requirements.

PACE or CA HERO loans may not be subordinated and must be paid off and released.

References

Reference List
ACE System
APM 17-06
APM 18-04
APM 19-05
Benefits Planner Income Taxes and your Social Security
Chapter 15 Texas Section 50(a)(6) & (a)(4)
Chapter 16 Insurance
Charges and Credit Matrix

Circular 26-19-05
Circular 26-20-36
Local Requirements - VA Home Loans
Natural Disaster Operations Policy
Private Drinking Water Well Programs in your State US EPA
VA Prior Approval Loan Submission Procedure
VA Home Loan Limits
VA Interest Rate Reduction Refinance Loan (IRRRL)
VA Purchase
VA Rate/Term Refinance or Cash-Out Refinance
Guidelines for Testing Well Water

Revision History

Revision History is to be used as a reference only and will only provide a summary of document changes. For complete versioning, refer to the Google Docs versioning functionality, which is the system of record.

Date	Description	Approver	Octane Alignment
3.6.26	Updated General Requirements section with additional eligible types of certification when documenting the Veteran is alive and well This update may be applied as of 3.6.26 for all loans in process	Kristen Bellon	<i>Pending</i>
2.2.26	Added 2025 Mileage Reimbursement rate of 33 cents per mile	Kristen Bellon	-
1.30.26	Updated Cost of Living (COLA) adjustment to 2.8% for 2026 This update may be applied as of 1.30.26 for all loans in process	Kristen Bellon	-

1.19.26	Added clarification under Non-Traditional Credit > Tier 1 References to include two additional utility company references. This update is clarification and may be applied as of 1.14.26 to all loans in process	Kristen Bellon	-
12.31.25	Added Escrow Holdback Policy section along with links to Chapter 2 Documentation Standards Lending Guide for full guidelines	Ellen Clayson	-
11.12.25	<ul style="list-style-type: none"> Removed 'Previous mortgage foreclosure or Chapter 7 bankruptcy discharged within two (2) years of the application date' as a reason to manually downgrade an Accept mortgage Updated Chapter 7 Bankruptcy section to align with VA guidance related to bankruptcies discharged between 12-24 months from the Effective Note Date <p>These updates align with current guidance and are effective immediately for all loans in process</p>	Kristen Bellon	<i>Pending</i>
11.3.25	Added Unique Housing Types section which provides guidance for nonstandard housing styles and includes examples of what may be considered 'unique' construction types	Kristen Bellon	-
	This update is clarification only without any changes to existing policy		
10.17.25	Added Mortgage Held in the Name of a Family Trust section to provide additional documentation required in order to determine if property is included in the DTI calculation.	Ellen Clayson	<i>Pending</i>
	This is a clarification only and is effective immediately.		
10.10.25	Added a new section, Property Construction Definitions and Required Inspections and refactored requirements for the different types of construction for clarity. No policy changes were made.	Ellen Clayson	<i>Pending</i>

9.16.25	<p>Added clarification regarding short term debt providers and provided examples of programs that do not extend beyond 10 months and do not require additional explanation or documentation.</p> <p>This is a clarification only and is effective immediately.</p>	Ellen Clayson	-
9.16.25	<p>Refactored the following sections for clarity. No policy changes were made.</p> <ul style="list-style-type: none"> ● Debt-to-Income Ratio ● Loans with Debt Ratio Greater than 41 Percent ● VA Compensating Factors 	Ellen Clayson	-
8.26.25	<p>Added detailed guidance for Sales Comparison Approach , Cost Approach and Income Approach</p> <p><i>This update aligns with current VA guidance and is effective immediately</i></p>	Kristen Bellon	-
7.28.25	<p>Updated the Local Requirements section for Wood-destroying insect inspection requirements to clarify the specific counties in certain states where wood-destroying insect inspections are required</p> <p><i>This update aligns with VA guidance effective for TRID Application date on or after 7.11.25</i></p>	Kristen Bellon	Complete
6.23.25	<p>Added Cardinal Overlay stating when funds from a Certificate of Deposit (CD) are required for the down payment or closing costs, and the Note date precedes the CD's maturity date, proof of liquidation is required to reflect any potential early withdrawal penalties and confirm the net available funds</p> <p>Added documentation used to support Section 8 income must reflect the terms, including the source, benefit type, payment frequency and payment amount</p> <p><i>These updates are Cardinal overlays and are effective immediately</i></p>	Kristen Bellon	Complete

6.4.25	<p>Clarified guidance under the Co-signor/Co-obligor on a Loan or Obligation section specifying to omit a debt paid for by another party, the other party making the payments must also be a signer on the obligation</p> <p><i>This update is a Cardinal overlay and is effective immediately</i></p>	Kristen Bellon	<i>Pending</i>
4.9.25	<p>Updated New/Existing Construction section removing the requirement for a valid builder identification number prior to the issuance of the NOV; per Circular <u>26-25-01</u> a VA-issued builder identification number is no longer necessary for issuing the NOV. <i>This update is effective immediately</i></p>	Kristen Bellon	Complete
3.11.25	<p>Added clarification in the Subordinate Financing section for Homeowner Benefit Agreements in order to be re-subordinated. <i>Update is a clarification and effective immediately</i></p>	Ellen Clayson	Complete
3.5.25	<p>Updated Business Assets section to provide guidance on required documentation, along with an overlay of one month's additional PITIA reserves. <i>Update is effective immediately.</i></p>	Ellen Clayson	<i>Pending</i>
2.5.25	<p>Updated guidance related to Chapter 7, Chapter 11 and Chapter 13 Bankruptcies. <i>Update aligns with current VA guidance and is effective immediately</i></p>	Kristen Bellon	<i>Pending</i>
1.30.25	<p>Added clarification under Rental Income that income may be considered from a Single Family with ADU under the same conditions as those for a Multi-Unit property</p> <p>Clarified reserve requirements as they apply to a 1 unit with ADU (which VA refers to as a two unit)</p> <p><i>Updates align with current VA guidance and are effective immediately</i></p>	Erica Price Kristen Bellon	Complete
1.30.25	<p>Updated Manufactured Home New Construction section to remove the requirement for a FEMA Form 81-31 Elevation Certificate.</p> <p>Published guidance related to Two-Time Construction Loan Process. Revisions align with VA Handbook Chapter</p>	Ellen Clayson Kristen Bellon	Complete

	<p>7. Note: updates are pending system support; Credit Manager review is required. Update includes guidance related to:</p> <ul style="list-style-type: none"> ● Octane input ● Acquisition Costs ● Maximum Loan Amount ● Funding Fee ● Property Eligibility 		
1.24.25	<p>Updated 'through' date for First Time and Subsequent Use Funding Fee factors from November 15, 2031 to June 09, 2034</p>	Kristen Bellon	Complete
12.27.24	<p>Added guidance under Carbon Monoxide and Smoke Detector Standards specifying Massachusetts state law requires evidence of a fire inspection for compliance with smoke detectors and carbon monoxide detectors be obtained prior to loan recording</p> <p>Update is effective immediately</p>	Kristen Bellon	Complete
11.20.24	<p>Added Property Condition and Quality Alternative Rating on Manufactured Homes section reflecting an overlay clarifying that a Manufactured Home with a Condition or Quality Alternative Rating of less than Average is not acceptable collateral to secure a Mortgage unless all issues that caused the property to be rated less than Average are repaired prior to funding. Update is effective immediately</p>	Kristen Bellon	Complete

11.19.24	<ul style="list-style-type: none"> Expanded Restoration of Entitlement section adding guidance for Cash-out Refinance of an existing VA Loan Added clarification under NTB section for when the P&I is lowered due to a modification or ARM adjustment that the current (modified or adjusted) payment should be used when calculating the benefit to the veteran Updated Fee Recoupment Calculation section name to Fee Recoupment Requirement. Expanded section to clarify which fees and charges may be excluded from the calculation to meet recoupment. Clarified when the monthly PI payment has changed due to a loan modification or ARM, the monthly PI payment reduction should be computed based on the PI payment at the time of the closing of the new refinancing loan Added Cash-Out Refinance Comparison Matrix <p>Updates are effective immediately</p>	Kristen Bellon	<i>Pending</i>
11.7.24	Added guidance for Income from Overtime Work, Part Time Jobs, Second Jobs, and Bonuses. This is an alignment with current guidance from VA and is effective immediately	Kristen Bellon	<i>Pending</i>
10.31.24	Expanded Taxes and Abatement section to include additional guidance on eligible tax exemptions and abatements. No changes were made to current policy	Kristen Bellon	<i>Pending</i>
10.31.24	Added clarification for SSI Cost of Living Adjustment (COLA) that the adjustment may be considered towards qualifying income prior to the effective date of the increase. This update is effective immediately	Kristen Bellon	-
10.22.24	Updated Nearest Living Relative Form section specifying the document is required to be signed at closing. Update is effective for funding date on or after 10.22.24	Kristen Bellon	Complete
9.18.24	Added guidance to the Gift Letter Requirements section to indicate the letter must reflect the institution and account number of the donor from which the funds were (or will be) transferred. This is a Cardinal Overlay and is effective immediately	Kristen Bellon	Complete

8.23.24	Added guidance for the re-use of the appraisal on subsequent transactions clarifying the appraisal may only be used for our transaction. This guidance aligns with VA and is effective immediately	Kristen Bellon	-
8.1.24	Added additional clarification under Federal Debt for IRS Payment Plans for Taxes Due (Not Resulting in a Tax Lien). Update is effective immediately	Kristen Bellon	Complete
8.1.24	Updated Fees and Charges section per Circular 26-24-14 adding as Allowable Fees any buyer broker charges (including commissions and any other broker-related fees), subject to restrictions. Update is effective 8.10.24	Kristen Bellon	<i>Pending</i>
7.10.24	Revised Co-signed / Co-obligor on a Loan or Obligation section to remove the statement that there must be no delinquent payments for the debt in order to exclude from the DTI. While VA does require the debt to be current, they do not require that there are no delinquent payments in the history. Update is effective immediately.	Ellen Clayson	-
6.11.24	Added Self-Employed Business no Longer Open and Operational section clarifying that when a self-employed business is not disclosed, but is identified on the tax returns, Fraud Report, or other documentation, and that business has closed or has changed ownership, evidence must be provided that the entity is no longer open and operational. Update is effective immediately	Kristen Bellon	Complete
6.5.24	Added the following guidance under IRRRL Eligible Transactions for loans to Veterans and a fiance who intend to marry and take title as Veteran and Spouse: a copy of the borrowers' marriage certificate or other proof of marriage showing the marriage preceded loan closing must be retained in the loan file. A marriage license is inadequate. Update is effective immediately	Kristen Bellon	Complete
6.5.24	Added Cash to Veteran Generally not an Eligible Loan Purpose clarifying that veterans may receive cash back for amounts credited for prorated taxes paid in arrears. Update is effective immediately	Kristen Bellon	Complete
6.5.24	Added clarification for refinancing of contract for deed when the veteran is the owner of the property and when	Kristen Bellon	Complete

	the veteran is not the titled owner of the property. Update is effective immediately		
5.14.24	Updated Ineligible Properties section to include properties as listed on Cardinal's Overlay Matrix; no changes to existing policy were made	Kristen Bellon	-
5.14.24	Removed rental income from an Accessory Dwelling Unit as being ineligible. Clarified rental income on the subject ADU is acceptable if requirements under Temporary Boarder Income can be satisfied. This is current clarification from VA and is effective immediately	Kristen Bellon	
5.14.24	Clarified under Temporary Boarder Income that if the transaction is a purchase, a letter from the boarder must be obtained verifying they will be moving with the veteran and residing in the new subject property. This update is effective immediately	Kristen Bellon	
5.10.24	Added Temporary Boarder Income Single Family Residence section providing guidance for boarder income. This update aligns with VA's current guidance and is effective immediately	Kristen Bellon	
5.6.24	Clarified credit inquiries reflecting on a non-borrowing spouse's credit report do not need to be addressed	Kristen Bellon	
4.19.24	Indicated Cardinal Overlays to agency guidelines by highlighting text in our signature <i>Riptide</i> color. Overlays correspond to Cardinal Retail Overlay or TPO Overlay Matrix	Kristen Bellon	
3.29.24	Added additional guidance under Business Debt in Borrower's Name outlining the requirements for documenting the business paid debt, along with guidance for identifying the debt in the cash flow analysis of the business. This is a clarification and effective immediately.	Ellen Clayson	
3.21.24	Added eligibility for Adjustable Rate Mortgages (ARM's) 3/1 and 5/1. ARM's are eligible for loans locked on or after 3.21.24	Kristen Bellon	
3.18.24	Clarified that a manually underwritten loan and borrower is living rent free, a Rent-Free letter is required. This is a clarification and effective immediately Added definition of Departure Residence. This is also a clarification and effective immediately	Ellen Clayson	

3.14.24	Added guidance for Borrower Relocating with the Same Employer. This change is effective immediately	Kristen Bellon	
3.7.24	Added clarification and guidance for use of the Lender and Borrower Completion Certification available in Octane. This form may be used in certain circumstances in lieu of the 1004D	Kristen Bellon	
3.4.24	Added sections Borrower Employed Less than 12 months and Recent History of Frequent Changes of Employment to align with guidance from VA	Kristen Bellon	
2.16.24	Provided clarification in Proposed/Under Construction section for Builder Radon Certification and the completion of the Notice of Value	Ellen Clayson	
2.14.24	Added requirements for Carbon Monoxide and Smoke Detector Standards depending on property construction and appraisal type	Ellen Clayson	
2.9.24	Added direction under the Cash-out Refinance section for manufactured homes which have not yet been de-titled and are showing as an installment loan on the credit report	Kristen Bellon	
1.19.24	Updated Commission Income section to clarify documentation requirements	Kristen Bellon	
12.14.23	Added Purchase Contract section with clarification that only those borrowers listed on the loan application can be signers on the Purchase Contract, unless an explanation is provided for any additional parties	Kristen Bellon	
12.1.23	Updated Collections and Charged-off Accounts section to include guidance for Medical and Non-Medical collection accounts applicable for loans with TRID Application Date on or after January 1, 2024	Kristen Bellon	
11.22.23	Added clarification that assets from a Private Savings Club are considered ineligible funds for use in the transaction	Kristen Bellon	
11.10.23	Added additional guidance under Analyze Income Derived from Self-Employment section; clarified self-employment must be documented and evaluated in accordance with standard guidance in all cases, added guidance for self-employment as a secondary source of employment, self-employment from co-borrower not used to qualify	Kristen Bellon	

	and self-employment with business ownership less than 25%		
10.27.23	Added guidance for borrowers employed by family. Added overlay to require require a loan exception review for borrowers employed by family less than six months	Kristen Bellon	
10.19.23	Clarified procedures related to funding fee exemption determinations	Kristen Bellon	
9.27.23	Added clarification for when 2106 Business Expenses must still be considered for certain service members	Kristen Bellon	
9.4.23	Removed requirement for a lien search for a non-borrowing spouse with no Social Security number	Ellen Clayson	
8.24.23	Updated AUS Income Documentation chart removing requirement for 12 months receipt of Alimony/Child Support/Separate Maintenance when AUS recommendation is a Refer	Kristen Bellon	
8.24.23	Defined Relative in the Power of Attorney section	Ellen Clayson	
8.22.23	Updated IRRRL Borrower Eligibility for Married Veteran (excluded spouse from initial transaction) to permit an IRRRL transaction when the new transaction includes the Veteran's spouse	Kristen Bellon	
8.22.23	Added Wind Load, Roof Load and Thermal Zones section which provides details of zones displayed on the HUD Data Plate. Added requirement that the zone must be verified as acceptable by the SAR Underwriter	Kristen Bellon	
7.10.23	Added Undisclosed Obligation section to define, identify sources where the obligation may be found, and what documentation is required	Ellen Clayson	
6.26.23	Added guidance per Circular 26-22-11 that the Veteran may be charged a wood destroying pest inspection fees where required by the NOV. Veterans may also pay for any repair required to ensure compliance with MPR's	Kristen Bellon	
6.26.23	Added clarification that loans with more than two veteran borrowers cannot be supported by DU and will require a manual downgrade	Kristen Bellon	
6.21.23	Added guidance for income received on a Per Diem basis	Kristen Bellon	

6.2.23	Added clarification under Rental Income for the Subject property that a contract from a Property Management Company used in lieu of two-years tax returns must be for a length of 12 months	Kristen Bellon	
5.30.23	Added Short-Term Debt Obligations section which provides guidance for buy now/pay later accounts such as Klarna, Affirm and Afterpay	Kristen Bellon	
5.30.23	Removed Partial or No Rental History on Tax Returns section. Added Analysis of Rental Property Income section	Kristen Bellon	
5.30.23	Added additional clarification for reserves under Reserve Requirements for use of Rental Income section	Kristen Bellon	
5.24.23	Removed Loans with non-occupying co-borrowers from Ineligible Transactions	Kristen Bellon	
4.26.23	Added clarification for payment history requirements under the Cash-out Refinance Transactions section. Removed requirement that 6 most recent monthly payments were made on time	Kristen Bellon	
4.13.23	Added Properties Near Airport section	Kristen Bellon	
4.5.23	Added Documentation Requirements under Sale of Home section outlining allowable documentation when utilizing estimated proceeds or evidencing the exclusion of a mortgage liability	Kristen Bellon	
3.31.23	Removed Non-arm's-length transaction on a short sale when the seller and buyer are related as an ineligible transaction	Kristen Bellon	
3.24.23	Added Shared Well section	Kristen Bellon	
3.23.23	Updated Homeowner's Association Dues section with additional verification method when documenting association dues	Kristen Bellon	
3.22.23	Removed requirement for evidence of security deposit and first month's rent receipt in Rental Income > Departure Residence; removed requirement for reserves in Conversion of Primary Residence to Second Home and Pending Sale of Real Estate sections	Ellen Clayson	
3.22.23	Added additional guidance for documenting property taxes on other real estate owned	Kristen Bellon	

3.15.23	Added guidance for non-borrowing spouse without a SSN	Kristen Bellon	
3.15.23	Clarified that rental income generated from the subject Accessory Dwelling Unit is not permitted	Kristen Bellon	
3.7.23	Revised calculation for property tax calculations for new construction properties in Texas and New Mexico	Ellen Clayson	
2.24.23	Added VA Funding Fee table for loans closed on or after April 7, 2023 reflecting revised loan fee rates	Kristen Bellon	
2.24.23	Updated Real Estate Tax section for new construction using new functionality for projected taxes in qualifying, but allows current taxes to be used for closing if the borrower requests	Ellen Clayson	
2.13.23	Added clarification under Rental Income for subject property that a contract used from a Property Management company in lieu of tax returns when documenting an acceptable landlord history may not come from an individual caretaker, real estate agent or property manager	Erica Price	
2.1.23	Updated Occupancy Certification section with changes to required form 26-1820 and 26-1802a	Kristen Bellon	
1.17.23	Added guidance for Split Entitlement when the available entitlement is uneven	Kristen Bellon	
1.8.23	Added exception handling for property tax calculations for new construction properties in Texas and New Mexico	Ellen Clayson	
1.6.23	Removed the requirement for the Reservist National Guard Certification completed by the veteran	Kristen Bellon	
1.6.23	Added clarification that the Certificate of Eligibility (COE) does not have a defined expiration date	Kristen Bellon	
12.22.22	Aligned guidance for Large Deposits with VA and removed requirement to source deposits over 50% of the qualifying income	Kristen Bellon	
12.19.22	Updated Location of Employer section specifying requirement is applicable to purchase transactions only	Kristen Bellon	

12.13.22	Clarified documentation allowed to reflect revolving debt balance that is being paid off to qualify	Ellen Clayson	
12.2.22	Updated the Access to Property section with requirements for Private Road from Circular 26-22-17	Kristen Bellon	
11.28.22	Replaced Refinance Seasoning chart with link to Refinance Comparison Matrix	Kristen Bellon	
11.15.22	Removed requirement to provide a lease agreement on any non-subject property for which rental income is being considered for qualifying purposes	Kristen Bellon	
10.26.22	Updated the Septic section with guidance for private sanitation systems located in NJ, AK, MA and ID	Kristen Bellon	
10.11.22	Clarified guidance for Additions, Modifications- Special State Requirements under Manufactured Home section	Kristen Bellon	
10.07.22	Added Temporary Buydown section	Ellen Clayson	
9.29.22	Removed exemption for Approval of site condos in the state of MI	Kristen Bellon	
9.19.22	Added additional guidance for employment history under the Traveling Nurses section	Kristen Bellon	
9.16.22	Removed the requirement for debts of a non-purchasing spouse be considered when the borrower is <i>residing</i> in a community property state; debts must still be considered when the <i>subject property</i> is located in a community property state	Kristen Bellon	
9.16.22	Added additional information to Certificate of Eligibility section for Active Duty Service Members and guidelines to generate the Statement of Active Duty smart document	Ellen Clayson	
9.15.22	Added Appraisal form 2055 as an acceptable form type under Form Requirements section	Kristen Bellon	
8.30.22	Added clarification for forbearance under the Refinance Seasoning and Mortgage History section	Kristen Bellon	
8.24.22	Revised age of child and documentation requirements under the Child Care Expenses section	Kristen Bellon	
8.24.22	Added Business Debt in Borrower's Name section	Kristen Bellon	
7.27.22	Added state specific reference chart for wood-destroying	Kristen Bellon	

	insect information		
7.15.22	Added United States Space Force (USSF) as an eligible branch of service	Kristen Bellon	
7.15.22	Updated AUS Income Documentation table	Kristen Bellon	
6.30.22	Added single-wide manufactured home eligibility	Ellen Clayson	
6.27.22	Added clarification to require foreign assets be deposited to a US financial institution prior to closing	Kristen Bellon	
6.15.22	Added additional guidance under Cash-out Refinance Net Tangible Benefit for payoff of consumer debt	Kristen Bellon	
6.7.22	Updated Prior Approval section removing the Prior Approval requirement for a veteran who has been rated unable to manage financial affairs and has been appointed a fiduciary by VA	Kristen Bellon	
6.1.22	Revised guidance for 30-Day Charge Accounts to permit a 5% payment be included in the qualifying ratios when the account cannot be documented as paid in full monthly	Kristen Bellon	
5.23.22	Added additional guidance for Cash-out Refinance transactions under the VA-Guaranteed Cash-out Refinance Loans section	Kristen Bellon	
5.23.22	Clarified that proposed tax amounts on new construction transactions will be derived from the CoreLogic Property Tax Estimate if a Tax Certificate cannot be obtained from the taxing authority.	Ellen Clayson	
5.18.22	Revised Disputed Derogatory Credit Accounts section to remove the requirement that if the Borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts, the underwriter must include a monthly payment in the Borrower's debt calculation	Kristen Bellon	
5.11.22	Added Accessory Dwelling Unit section	Kristen Bellon	
5.10.22	Added additional guidance under Net Tangible Benefit for court ordered debt	Kristen Bellon	
4.29.22	Added additional guidance for analysis of income from Commission	Kristen Bellon	
4.27.22	Added guidance for input of DACA borrowers into Octane	Kristen Bellon	

4.22.22	Updated guidance for Modified/ Restructured Loans clarifying seasoning and payment requirements pertain to refinance transactions only	Kristen Bellon	
4.11.22	Added guidance for commission earnings from Projected Income	Kristen Bellon	
4.11.22	Added guidance for commission income when the borrower has recently started with a new employer	Kristen Bellon	
3.22.22	Added clarification under Newly Employed Borrowers that guidelines may not apply for a Seasonal or Union Member worker.	Ellen Clayson	
3.3.22	Removed Cardinal overlay that Projected Income is not permitted and clarified that a pay stub does not need to be obtained prior to loan delivery	Kristen Bellon	
3.3.22	Added clarification under Collections to align with VA Handbook	Ellen Clayson	
3.1.22	Added clarification under Condition Rating for C5 and C6 ratings	Kristen Bellon	
1.31.22	Added Reconsideration of Value section	Kristen Bellon	
1.31.22	Added Market Data section	Kristen Bellon	
1.27.22	Added guidance for Traveling Nurses	Kristen Bellon	
1.13.22	Added Living Trust section	Kristen Bellon	
1.13.22	Added Partial Claim section	Kristen Bellon	
1.7.22	Added Definition Table for difference between Forbearance and Loan Modification when applying seasoning requirements to certain refinance transactions	Kristen Bellon	

12.20.21	Immaterial changes. Corrected grammar and formatting to align with company standards.	N/A	
12.16.21	Added guidance for consideration of assets from Cryptocurrency, Digital Currencies or Altcoins	Kristen Bellon	
11.24.21	Clarified history of receipt and requirement for continuance for the following types of income- Pension, Retirement, Disability, Trust Income, Dividends and Interest, Royalties and Notes Receivable	Kristen Bellon	
11.16.21	Added seasoning requirement clarifying loans that have been modified must meet seasoning requirements beginning with the first payment due date after the modification	Kristen Bellon	
11.11.21	Removed on-frame modular home as an ineligible property type	Kristen Bellon	
11.1.21	Added Local Requirements section and additional details regarding required inspections	Kristen Bellon	
9.23.21	Added clarification for increased residual as the net tangible benefit for a cash-out transaction.	Ellen Clayson	
9.20.21	Provided clarification that maintenance fees associated with a Timeshare property must be included in the borrower's debt-to-income ratios	Kristen Bellon	
9.12.21	Added additional clarification for required documentation when rental income is generated from Other Real Estate Owned	Kristen Bellon	
9.7.21	Added requirement for a current, fully executed lease agreement on any Non-subject property for which rental income is being considered for qualifying purposes	Kristen Bellon	
9.1.21	Clarified three year continuance of certain income types is based off of the Note date	Kristen Bellon	

8.20.21	Added section heading and clarification for Manufactured Home Moved from Original Site	Kristen Bellon	
8.16.21	Updated the requirements for a Certificate of Eligibility (COE) on IRRRL transactions	Kristen Bellon	
7.13.21	Provided additional clarification for when a non-credit qualifying IRRRL must be underwritten as Credit Qualifying due to a change in Obligors	Kristen Bellon	
7.12.21	Provided clarification under Self-Employment Income that YTD P&L and Balance Sheets are required on Manually Underwritten loans only	Kristen Bellon	
7.9.21	Removed Living and Land Trust from Ineligible Transactions section. Added Land Trust section	Kristen Bellon	
7.8.21	Updated Borrower Eligibility for IRRRL transactions clarifying that when a Married Veteran excluded their spouse from the initial loan and wishes to add that spouse to our new transaction, the loan must be credit qualified	Kristen Bellon	
6.30.21	Provided clarification for Modified or Restructured Loans that when reviewing the payment history for any applicable seasoning requirements, seasoning will be based off of the date of the original loan	Kristen Bellon	
6.30.21	Updated Automobile Allowance section removing requirement for a two year history of receipt	Kristen Bellon	
6.30.21	Added Timeshare section	Kristen Bellon	
6.25.21	Updated Rental Income section providing clarification that only Property Depreciation claimed as a deduction on the tax returns may be included in the effective income	Kristen Bellon	
6.25.21	Provided additional guidance for Self-Employed Income that Financial Statements, including a year-to-date Profit and Loss Statement and Balance Sheet must be completed after one-half of the tax-year has passed to verify current income and stability of the income	Kristen Bellon	

6.25.21	Added additional requirement when providing business tax returns that the returns must include a list of all stockholders or partners showing the interest each holds in the business	Kristen Bellon	
6.1.21	Added Massachusetts to list of states that do not require a private road maintenance agreement	Kristen Bellon	
5.27.21	Updated guidance for certain members of the National Guard	Kristen Bellon	
5.11.21	Added guidance for non-vented fireplaces	Kristen Bellon	
5.3.21	Added additional guidance for collection accounts under Debts of the Non-Borrowing Spouse	Kristen Bellon	
4.13.21	Added guidance for foreclosure on vacant land	Kristen Bellon	
4.9.21	Added guidance for AUS Approve/Ineligible recommendation on loans using Split Entitlement	Kristen Bellon	
4.5.21	Added guidance for borrowers employed by a Trade Union	Kristen Bellon	
3.22.21	Removed borrowers with DACA citizenship status as ineligible; borrowers with C-33 designation are now permitted	Kristen Bellon	
3.22.21	Added DTI permitted 50%-60% with a minimum of 120% residual income required	Kristen Bellon	
3.22.21	Removed manual underwriting restriction on manufactured homes	Kristen Bellon	
3.18.21	Added clarification for reserve requirements	Kristen Bellon	
3.9.21	Added additional guidance for omission of debt of a non-borrowing spouse in a Community Property State	Kristen Bellon	
3.8.21	Added guidance that a PACE or CA HERO loans may not be subordinated and must be paid off and released	Kristen Bellon	
3.3.21	Added guidance for Social Security Payroll Tax Deferral repayment terms	Kristen Bellon	
2.22.21	Added guidance for Alimony and Child Support obligations permitting an Alimony obligation be shown as a reduction to income	Kristen Bellon	
2.19.21	Added Foreign Deposits section	Kristen Bellon	
2.16.21	Added Alimony, Child Support and Maintenance Payments section	Kristen Bellon	
2.11.21	Added Rental Payment History documentation guidelines	Kristen Bellon	

	for AUS Refer		
2.8.21	Added guidance for mixed-use properties	Kristen Bellon	
1.28.21	Added requirements for Previous Employment for manually downgraded loans	Kristen Bellon	
1.25.21	Added requirements for Separate Maintenance income	Kristen Bellon	
1.15.21	Added Acceptable Occupancy Scenarios section which addresses various occupancy scenarios that may be applicable to the veteran	Kristen Bellon	
11.19.20	Added Location of Employer section providing guidance for commuting distance and for when a borrower is working remotely	Kristen Bellon	
10.29.20	Updated Compensating Factors chart replacing the term Household Income with Residual Income		
10.26.20	Updated guidance pertaining to a Gift of Equity	Ellen Clayson	
10.13.20	Clarified that a transferred appraisal must be in the name of the Veteran	Kristen Bellon	
9.25.20	<ul style="list-style-type: none"> Clarified tax returns are not required when grossing up VA Disability income. Updated guidance for Site Condominiums located in the state of MI 	Kristen Bellon	
9.22.20	Updated guidance for Tax Abatements	Kristen Bellon	
9.4.20	Provided additional clarification for when an exception request through credit committee is required for a Newly Employed Borrower	Kristen Bellon	
8.12.20	Updated Refinance Seasoning and Mortgage History with additional seasoning requirements	Kristen Bellon	
7.27.20	Added Trust Income section	Kristen Bellon	
7.8.20	Added guidance for property resale restrictions	Kristen Bellon	
6.29.20	Removed requirement for two years federal income tax returns when the borrower earns commission income of 25% or more	Kristen Bellon	
6.18.20	Added guidance for properties considered “Off Grid”	Ellen Clayson	
6.15.20	Provided revisions per Circular 26-19-17 Change 2 which addresses additional steps in determining whether the borrower may be exempt from paying the funding fee	Kristen Bellon	

6.10.20	Provided clarification for Contingent Liabilities that in the case of forbearance or deferment, if a payment has been deferred within the most recent 12 months, the obligation must be included in the borrower's DTI	Ellen Clayson	
6.9.20	Added guidance for Public Assistance Income	Ellen Clayson	
6.8.20	Added guidance for Leasehold Estates	Ellen Clayson	
6.5.20	Added guidance for using income from gambling winnings	Kristen Bellon	
6.2.20	<ul style="list-style-type: none"> ● Added a signed contract with a property management company (PMC) is acceptable in lieu of previous landlord experience when documenting a history of property rental management ● Added Payment Shock section 	Erica Price	
5.29.20	Added Comparing Previous and Proposed Shelter Expenses section	Kristen Bellon	
5.27.20	Added Gift of Equity section	Ellen Clayson	
5.22.20	Added Frozen Credit section	Kristen Bellon	
5.8.20	Provided requirements to allow the subject transaction to proceed when an active forbearance is canceled	Ellen Clayson	
5.7.20	Added guidance for a Paycheck Protection Program (PPP) loan issued by the SBA and clarified a payment does not need to be included in the qualifying ratios	Ellen Clayson	
5.5.20	<ul style="list-style-type: none"> ● Clarified that an IRRRL without appraisal option is permitted on conforming and high balance loan amounts and on any property type with the exception of Fixed-to-ARM transactions in which discount points are being charged ● Added guidance that if the subject mortgage, or any mortgage tied to other Real Estate Owned by the borrower, is in a forbearance status, the loan is ineligible for financing 	Erica Price	
4.10.20	Temporarily suspended projected future earnings as an income source	Ellen Clayson	
4.3.20	Added requirement for when the current year's tax returns reflect federal taxes due, evidence of payment must be documented	Ellen Clayson	
4.2.20	Added section, Exemptions for Seniors, Veterans, Disabled	Erica Price	

	Veterans or Others		
3.21.20	Modified language adding more clarity on recoupment for IRRRL	Erica Price	
3.26.20	Added Texas Section 50(a)(6) loan as an ineligible transaction type	Kristen Bellon	
3.23.20	Added additional services to the Allowable and Unallowed Charges matrix	Kristen Bellon	
3.11.20	Provided guidance for Overdraft Protection Withdrawals	Erica Price	
3.10.20	Removed a manufactured home that has been moved from one location to another as an ineligible property	Kristen Bellon	
2.19.20	Added Non-Sufficient (NSF) section outlining requirement that NSF fees and /or overdraft charges on the current bank statement(s) will require an explanation if the loan is being manually underwritten and credit history or assets are in question	Erica Price	
2.16.20	Added A CAIVRS screening is required for each Veteran and co-borrower on a VA IRRRL loan	Ellen Clayson	
2.6.20	Provided clarification when including an installment debt with payments less than 10 months remaining, the Months Left field in the Credit > Liabilities screen must be manually changed to greater than 10 months	Ellen Clayson	
1.31.20	Added clarification for determining the reasonable value on a VA IRRRL	Erica Price	
1.15.20	Added Assisted Appraisal Processing Program (AAPP) guidelines in appraisal section	Ellen Clayson	
1.13.20	<ul style="list-style-type: none"> Removed requirement of no more than 1x30 late housing payments in the last 12 months Clarified for VA IRRRL's that loans being refinanced may not have any 30-day late payments (1x30) during the 6 months preceding the new loan's closing date 	Ellen Clayson	
1.9.10	<ul style="list-style-type: none"> Provided clarification on calculation of commission earning Provided examples of acceptable calculations when income is increasing or decreasing 	Kristen Bellon	
1.8.20	Added clarification that IRRRL Refinance transactions do not require verification of the borrowers citizenship	Ellen Clayson	

12.22.19	Provided guidance on acceptable documentation permitted to verify monthly HOA dues	Ellen Clayson	
12.18.19	<ul style="list-style-type: none"> Clarified that the following states are not required to provide a maintenance agreement for private roads: Connecticut, New Hampshire, Vermont Added that a copy of the builder's license is required for all Michigan properties appraised as either proposed or under construction or new construction Added wood-destroying insect information is required for all properties in the following Michigan counties: Allegan, Barry, Berrien, Branch, Calhoun, Cass, Hillsdale, Ionia, Jackson, Kalamazoo, Kent, Lenawee, Livingston, Macomb, Mason, Monroe, Muskegon, Oakland, Oceana, Ottawa, St. Clair, St. Joseph, VanBuren, Washtenaw and Wayne 	Erica Price	
12.16.19	Removed Restriction for High Balance on Manufactured Housing Properties	Ellen Clayson	
12.12.19	Added a written explanation of mortgage payment history is required for borrowers with more than 1x30 day late payment for all mortgages for the past 12 months. Manual downgrade to Refer for any mortgage debt with more than 1x30 day late payment in the past 12 months is required	Ellen Clayson	
12.9.19	<ul style="list-style-type: none"> Added Funding Fee table with fee amounts effective for Note Date on or after 01/01/2020 Clarified requirements for IRRRL Test A: Safe Harbor Test adding that at least 6 payments must have been made on the original loan 	Ellen Clayson	
12.2.19	Added Newly Employed Borrower section and provided requirements for borrowers who have recently started employment with a new employer and have been on the new job less than 6 months	Ellen Clayson	
2.1.19	Added Leased Mechanical Systems and Equipment section	Ellen Clayson	
11.13.19	Added Collateralized Loan section and provided clarification for 401(k) loans reflecting on paystubs	Ellen Clayson	
11.11.19	<ul style="list-style-type: none"> Provided revisions per Circular 26-19-17 Change 1. Added requirement that the surviving spouse must be in receipt of Dependency and Indemnity 	Ellen Clayson	

	<p>Compensation (DIC) for exemption from the funding fee</p> <ul style="list-style-type: none"> Added Real Estate Commission section clarifying when the borrower is a real estate agent on the subject transaction and uses commission earnings towards the required cash investment and/or closing costs Added Chapter 12 Bankruptcy section 		
11.8.19	Clarified LTV Calculations for Purchase and Refinance Transactions	Ellen Clayson	
10.30.19	<ul style="list-style-type: none"> Added section, Condition Rating Provided guidance for when a borrower is on title to the subject property, but not on the existing mortgage 	Ellen Clayson	
10.17.19	Added 529C College Savings Plan as an eligible asset type	Ellen Clayson	
10.8.19	Clarified Eligible Donors; Added Custodial Account Eligibility	Ellen Clayson	
9.24.19	Clarified Water Supply Testing Requirements	Ellen Clayson	
9.23.19	Clarified Requirements for VA Escape Clause; Added MN Chapter 13 Procedures for Court Approval	Ellen Clayson	
9.17.19	Clarified Co-Obligor / Co-Signed Loan Guidelines include all debt, not just non-mortgage debt	Ellen Clayson	
9.12.19	Added Section for Access to Property	Ellen Clayson	
9.2.19	Clarified that the most recent and accurate credit report must be used in the loan decision; added requirements for borrowers converting from 1099 to W-2 wage earner with same employer	Ellen Clayson	
8.31.19	Added Principal Curtailment Policy	Ellen Clayson	
8.30.19	Added link to Natural Disaster Operations Policy	Ellen Clayson	
8.27.19	<ul style="list-style-type: none"> Clarified IRRRL Appraisal only required on Fixed-to-ARM IRRRL when Discount Points are being charged. Added Section clarifying VA Prior Approval Loans 	Ellen Clayson	
8.11.19	Clarified COLA income and sources to verify continuance; clarified Interested Party concessions; Revised Refinance Seasoning to comply with Ginnie Mae Announcement	Ellen Clayson	

	APM 19-05; Added requirements for IRRRL transactions to meet Safe Harbor Qualified Mortgage.		
8.10.19	Clarified that Manufactured Homes on Purchase and Cash-Out Type I and II must be an AUS approve / accept. Manual Underwriting is not allowed.	Ellen Clayson	
7.7.19	Provided Revision per Circular 26-19-12 that Prohibits Ordering of Appraisal Prior to the Certificate of Eligibility. Provided Revision per Circular 26-19-13 Allowing Transactions with Two or More Unmarried Veterans Who Are Using Entitlement as an Automatic Underwriting Authority and NOT Prior Approval. Provided Revision per Circular 26-19-17 that Requires a COE on all Transactions, including IRRRL.	Ellen Clayson	
7.2.19	Clarified Guidelines for Federal Tax Liens vs Tax Due	Ellen Clayson	
6.14.19	Revised Language Surrounding Previous Foreclosure on a VA-Guaranteed Loan to match VA Guidelines	Ellen Clayson	
6.12.19	Added Process for 1004D as PTF Condition	Ellen Clayson	
6.10.19	Added Clarification on Chapter 11 BK Guidelines; Added Clarification for Lease Agreements from Family Members	Ellen Clayson	
5.23.19	<ul style="list-style-type: none"> ● Revised Guideline Regarding Paying Off Revolving Debt to Qualify ● Added Clarification on Joint Accounts Needing Access Letter 	Erica Price	
5.10.19	Clarified VA Allowable Fees	Ellen Clayson	
5.10.19	Seasoning chart correction for IRRRL	Ellen Clayson	
5.9.19	Clarified Student Loan Payment Calculation	Ellen Clayson	
4.25.19	Added Government Loan Seasoning Requirements Table for all Refinances	Erica Price	
4.15.19	VA NTB and Loan Comparison Clarification, Added Self-Employment Income, Added Departure Residence Rental, Added Projected Income	Erica Price	
4.9.19	VA IRRRL Appraisal Requirements	Erica Price	
3.29.19	VA Seasoning Exemptions	Erica Price	
3/2019	<ul style="list-style-type: none"> ● Asset Verification Not required for IRRRL transactions ● Ineligible Borrowers 	Erica Price	

	<ul style="list-style-type: none"> Amendatory Clause/VA Escape Clause Real Estate Certification Required Disclosures Eligible and Ineligible Transactions 		
2.2019	<ul style="list-style-type: none"> Separation Agreement clarification for Alimony/Child Support obligations. Cash-Out Refinance Type 1 and Type 2, NTB and LTV changes Cost of Living (COLA) 	Erica Price	
1.2019	Seasoning	Shannon Purvis	
9.2018	Housing History	Erica Price	
8.2018	Clarification of Residual Income requirements and APM 18-04 (VA refinance transactions)	Stephanie Camara-Ray	
5.2018	Clarification of VA Rate and Term and Disputed Credit Accounts	Stephanie Camara-Ray	
4.2018	Clarified Cash-Out is allowable on manufactured homes	Stephanie Camara-Ray	
3.2018	Added 210 days to the VA refinance rules to clarify that it is 6 months AND 210 days	Stephanie Camara-Ray	
3.2018	Clarification of Allowable Delinquency	Erica Price	
1.2018	Occupancy Certification, seasoning on Cash-Out and IRRRL	Erica Price	
10.2017	Initial Approval	Erica Price	