

VA Lenders Handbook (VA Pamphlet 26-7), Chapter 1, Topic 9 — Withdrawal of Automatic Authority from Supervised or

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9. Withdrawal of Automatic Authority from Supervised or Non-supervised Automatic Lenders Change Date February 1, 2019 • This chapter has been revised in its entirety. a. General VA can withdraw a lender's automatic authority for proper cause, after giving the lender 30 days notice. This applies to both supervised and non-supervised lenders. VA regulations at 38 CFR 36.4349 provide the framework. The lender may continue processing loans on a prior approval basis after its automatic authority has been withdrawn. The remainder of this Topic gives the reasons a lender's automatic authority can be withdrawn, and the corresponding period for which the withdrawal will be effective. b. Withdrawal for an Indefinite Period Withdrawal for an indefinite period can be based on any of the following: Failure to continue meeting basic qualifying criteria: • For supervised lenders, this includes loss of status as an entity subject to examination and supervision by a Federal or State regulatory agency. • For non-supervised lenders, this includes no approved underwriter, failure to maintain \$50,000 working capital or \$250,000 adjusted net worth, and/or failure to file the required financial statements. Any of the causes for debarment set forth in 38 CFR 44. During the probationary period for newly-approved non-supervised automatic lenders, automatic authority may be withdrawn for poor underwriting consistently careless processing, failure to provide loan files timely, or to provide other necessary documents as requested by VA. Continued on next page VA Pamphlet 26-7, Revised Chapter 1: Lender Approval Guidelines 1-32 9. Withdrawal of Automatic Authority from Supervised or Non-supervised Automatic Lenders, continued c. Withdrawal for 60 Days Withdrawal for 60 days can be based on any of the following: • Loan submissions show deficiencies in credit underwriting after repeatedly being called to the lender's attention, such as the use of unstable sources of income to qualify borrower or ignoring significant adverse credit items affecting applicant's creditworthiness. • Employment or deposit verifications are hand carried by applicants or otherwise improperly permitted to pass through the hands of a third party. • Consistently incomplete loan submissions after repeatedly being called to the lender's attention. • Continued instances of disregard of VA requirements after repeatedly being called to the lender's attention. Continued on next page VA Pamphlet 26-7, Revised Chapter 1: Lender Approval Guidelines 1-33 9. Withdrawal of Automatic Authority from Supervised or Non-supervised Automatic Lenders, continued d. Withdrawal for 180 Days Withdrawal for 180 days can be based on any of the following: • Loans conflict with VA credit standards and would not have been made by a lender acting prudently. • Failure to disclose to VA significant obligations or other information so material to the Veteran's ability to repay the loan that undue risk to the Government results. • Employment or deposit verifications are hand carried by the applicant or otherwise mishandled, resulting in submission of significant misinformation to VA. • Substantiated complaints are received that the lender misrepresented VA requirements to Veterans to the detriment of their interests. Examples: - The Veteran was dissuaded from seeking a lower interest rate based on lender's incorrect advice

that such options were excluded by VA requirements. - Closing documents show instances of improper charges to Veteran after the impropriety of such charges are called to lender's attention by VA, or the lender refuses to refund such charges after notification by VA. - Other instances of lender actions prejudicial to the interests of Veterans such as deliberate delays in scheduling loan closings. e. Withdrawal for 1 to 3 Years Withdrawal for 1 to 3 years can be based on any of the following: • Failure to properly disburse loans, such as loan disbursement checks are returned due to insufficient funds. • Involvement by the lender in the improper use of a Veteran's entitlement, such as knowingly permitting the Veteran to violate occupancy requirements. • Lender involvement in the Veteran's sale of entitlement to a third party, such as a lender makes the loan with the knowledge that the Veteran is not purchasing the property to be his or her home. Instead, the Veteran intends to transfer title to a third party who assumes the loan shortly after closing. VA Pamphlet 26-7, Revised Chapter 1: Lender Approval Guidelines 1-34

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