

VA Lenders Handbook (VA Pamphlet 26-7), Chapter 1, Topic 13 — Calculation of Adjusted Net Worth

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13. Calculation of Adjusted Net Worth Change Date February 1, 2019 • This chapter has been revised in its entirety. a. Method Net worth for VA purposes is determined by 38 C.F.R. §36.4352(b)(4)(ii). b. CPA Requirement Adjusted net worth must be calculated by a CPA using an audited and certified balance sheet from the lender's latest financial statement, per the above regulation. c. Calculation Adjusted net worth is total assets, minus total liabilities, minus the following unacceptable assets: • Any assets of the lender pledged to secure obligations of another person or entity. • Any asset due from either officers or stockholders of the lender or related entities, in which the lender's officers or stockholders have a personal interest, unrelated to their position as an officer or stockholder. Personal interest indicates a relationship between the lender and a person or entity in which that specified person has a financial interest in or is employed in a management position by the lender. • Any investment in related entities in which the lender's officers or stockholders (or their family members) have a personal interest unrelated to their position as an officer or stockholder. • That portion of an investment in joint ventures, subsidiaries, affiliates and/or other related entities, which is carried at a value greater than equity, as adjusted ("equity, as adjusted" means the book value of the related entity reduced by the amount of unacceptable assets carried by the related entity). • All intangibles, such as goodwill, covenants not to compete, franchisee fees, organization costs, and so on, except unamortized servicing costs carried at a value established by an arm's-length transaction and presented in accordance with generally-accepted accounting principles. • That portion of an asset not readily marketable and for which appraised values are very subjective carried at a value in excess of a substantially discounted appraised value. Assets such as antiques, art work, and gemstones are subject to this provision and should be carried at the lower of cost or market. • Any asset that is principally used for the personal enjoyment of an officer or stockholder and not for normal business purposes. VA Pamphlet 26-7, Revised Chapter 1: Lender Approval Guidelines 1-41

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