VA Lenders Handbook (VA Pamphlet 26-7), Chapter 3, Topic 1 — Basic Elements of a VA-Guaranteed Loan

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1. Basic Elements of a VA-Guaranteed Loan Change Date November 8, 2012, Change 21 • This section has been updated to remove a hyperlink and make minor grammatical edits. a. General rules The following table provides general rules and information critical to understanding a VA loan guaranty. Exceptions and detailed explanations have been omitted. Instead, a reference to the section in this handbook that addresses each subject is provided. Subject Explanation Section Maximum Loan Amount VA has no specified dollar amount(s) for the "maximum loan." The maximum loan amount depends upon: • the reasonable value of the property indicated on the Notice of Value (NOV), and • the lenders needs in terms of secondary market requirements. 3 of this chapter Downpayment No downpayment is required by VA unless the purchase price exceeds the reasonable value of the property, or the loan is a Graduated Payment Mortgage (GPM). The lender may require a downpayment if necessary to meet secondary market requirements. 3 of this chapter Amount of Guaranty Guaranty is the amount VA may pay a lender in the event of loss due to foreclosure. 4 of this chapter Occupancy The veteran must certify that he or she intends to personally occupy the property as his or her home. 5 of this chapter Continued on next page VA Pamphlet 26-7, Revised Chapter 3: The VA Loan and Guaranty 3-3 1. Basic Elements of a VA-Guaranteed Loan, Continued a. General rules (continued) Subject Explanation Section Interest Rate and Points Interest rate and points are negotiated between the lender and veteran. • The veteran and seller may negotiate for the seller to pay all or some of the points. • Points must be reasonable. • Points may not be financed in the loan except with Interest Rate Reduction Refinancing Loans (IRRRLs). 6 and 7 of this chapter Purpose of Guaranty To encourage lenders to make VA loans by protecting lenders/loan holders against loss, up to the amount of guaranty, in the event of foreclosure. 11 of this chapter Underwriting Flexible standards. The veteran must have: • satisfactory credit, and • satisfactory repayment ability − stable income − residual income (net effective income minus monthly shelter expense) in accordance with regional tables, and − acceptable ratio of total monthly debt payments to gross monthly income (A ratio in excess of 41% requires closer scrutiny and compensating factors.). chapter 4 IRRRLs (Streamline Refinancing Loans) Used to refinance an existing VA loan at a lower interest rate. • No appraisal or underwriting is required. • Closing costs may be financed in the loan. • Any reasonable discount points can be charged, but only two discount points can be financed in the loan. • No cash to the borrower. Note: A fixed rate loan to refinance a VA Adjustable Rate Mortgage (ARM) may be at a higher interest rate. 1 and 2 of chapter 6 Continued on next page VA Pamphlet 26-7, Revised Chapter 3: The VA Loan and Guaranty 3-4 1. Basic Elements of a VA-Guaranteed Loan, Continued a. General rules (continued) Subject Explanation Section Funding Fee The veteran must pay a funding fee to help defray costs of the VA Home Loan program. • Find the percentage appropriate to the veteran's particular circumstances on the funding fee table. • Apply this percentage to the loan amount to arrive at the funding fee. • The funding fee may always be

financed in the loan. 8 of Chapter 8 Closing costs Those payable by the veteran are limited by regulation to a specific list of items plus a one percent flat charge by the lender. • Any other party, including the seller, can pay any costs on behalf of the veteran. • Closing costs cannot be financed in the loan except on certain refinancing loans. (See chapter 8.) 2, 4, and 7 of chapter 8 Security Instruments The lender may use any note or mortgage forms they wish as long as they contain certain VA-required clauses. 1 of chapter 9 VA Pamphlet 26-7, Revised Chapter 3: The VA Loan and Guaranty 3-5

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