VA Lenders Handbook (VA Pamphlet 26-7), Chapter 3, Topic 2 — Eligible Loan Purposes

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2. Eligible Loan Purposes Change Date November 8, 2012, Change 21 • This section has been updated to make minor grammatical edits. • Subsection a has been updated to remove information on cooperative units. a. List of Eligible Loan Purposes The law authorizes VA to guarantee loans made to eligible veterans only for the following purposes: • To purchase or construct a residence, including a condominium unit to be owned and occupied by the veteran as a home: − the loan may include simultaneous purchase of the land on which the residence is situated or will be situated, − loans may also be guaranteed for the construction of a residence on land already owned by the veteran (a portion of the loan may be used to refinance a purchase money mortgage or sales contract for the purchase of the land, subject to reasonable value requirements), and − the residential property may not consist of more than four family units and one business unit except in the case of certain joint loans. (See section 1 of chapter 7 for this exception.) • To refinance an existing VA-guaranteed or direct loan for the purpose of a lower interest rate. • To refinance an existing mortgage loan or other indebtedness secured by a lien of record on a residence owned and occupied by the veteran as a home. • To repair, alter, or improve a residence owned by the veteran and occupied as a home. • To simultaneously purchase and improve a home. • To improve a residence owned and occupied by the veteran as the veteran's home through the installation of a solar heating system, a solar heating and cooling system, or a combined solar heating and cooling system, or through the application of a residential energy conservation measure. These energy efficiency improvement loans can be made in conjunction with any type of VA purchase or refinancing loan. • To purchase a one-family residential unit in a condominium housing development approved by VA. • To purchase a farm residence to be owned and occupied by the veteran as a home. If the loan includes the purchase of farmland, the farmland is appraised at its residential value only. (See section 12 of chapter 11). Continued on next page VA Pamphlet 26-7, Revised Chapter 3: The VA Loan and Guaranty 3-6 2. Eligible Loan Purposes, Continued b. Ineligible Loan Purposes VA cannot guarantee loans made for ineligible loan purposes. Examples of ineligible loan purposes include: • Purchase of unimproved land with the intent to improve it at some future date (that is, the land purchase is not in conjunction with a construction loan). • Purchase or construction of a dwelling for investment purposes. • Purchase or construction of a combined residential and business property, unless, − the property is primarily for residential purposes, − there is not more than one business unit, and − the nonresidential area does not exceed 25 percent of the total floor area. • Purchase of more than one separate residential unit or lot unless the veteran will occupy one unit and there is evidence that: − the residential units are unavailable separately, − the residential units have a common owner, − the residential units have been treated as one unit in the past, and − the residential units are assessed as one unit, or − partition is not practical, as when one unit serves the other(s) in some respect; for example, common approaches or driveways. c. 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, see section 1 of chapter 6. • For cash-out refinancing loans, see section 3 of chapter 6. For other types of refinancing loans and all purchase/acquisition loans, the veteran generally cannot receive cash from loan proceeds. The only exception is the refund of items for which the veteran paid cash, which were subsequently included in the loan amount. Example: Earnest money can be refunded to the veteran on a no- downpayment loan. VA Pamphlet 26-7, Revised Chapter 3: The VA Loan and Guaranty 3-7

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