

VA Lenders Handbook (VA Pamphlet 26-7), Chapter 3, Topic 9 — Amortization

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9. Amortization Change Date November 8, 2012, Change 21 • This section has been updated to make minor grammatical edits. a. Requirement All VA loans must be amortized if the maturity date is beyond 5 years from the date of the loan. Loans with terms less than 5 years are considered term loans and need not be amortized. Generally, for amortized VA loans: • payments must be approximately equal, • principal must be reduced at least once annually, and • the final installment must not exceed two times the average of the preceding installments. Exceptions to these requirements are made in the case of: • GPMs – See section 7 of chapter 7, • Growing Equity Mortgages (GEMs) – See section 8 of chapter 7, • alternative amortization plans prior approved by VA, and • construction loans. b. Alternative Amortization Plans Certain amortization plans which do not meet the requirements described in subsection a above may be used if approved in advance by VA. A lender may submit an amortization plan to VA for prior approval if the plan: • is generally recognized; that is, is used extensively by established lending institutions, but • does not meet the requirements of approximately equal periodic payments and a reduction in principal not less often than annually. Exception: GPMs and GEMs. Continued on next page VA Pamphlet 26-7, Revised Chapter 3: The VA Loan and Guaranty 3-21 9. Amortization, Continued c. Special Provisions for Construction Loans See “Amortization” in section 2 of chapter 7. d. Standard and Springfield Plans The Standard and Springfield plans satisfy VA amortization requirements. • The Standard plan provides for equal payments over the life of the loan. The amount applied to interest decreases, with a corresponding increase in the amount applied to principal. • The Springfield plan provides for gradually decreasing payments over the life of the loan. The amount applied to interest decreases, while the amount applied to principal remains constant. VA Pamphlet 26-7, Revised Chapter 3: The VA Loan and Guaranty 3-22

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