

VA Lenders Handbook (VA Pamphlet 26-7), Chapter 3, Topic 11 — What Does a VA Guaranty Mean to the Lender?

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11. What Does a VA Guaranty Mean to the Lender? Change Date November 8, 2012, Change 21 • This section has been updated to make minor grammatical edits. a. Protection Against Loss VA guarantees a portion of the loan, identified on the VA Loan Guaranty Certificate (LGC) by percentage and dollar amounts. If a loss ultimately occurs on the loan, VA will reimburse the loan holder for all or part of such loss: • limited by the stated percentage and dollar amount of the guaranty, • limited by any VA maximums for reasonable and customary foreclosure expenses, and • subject to the lender's compliance with applicable law and regulations. b. Lender Responsibility It is the lender's responsibility to comply with all laws and regulations related to the VA Home Loan program, and thereby prevent VA's denial or reduction of a payment on a future claim. A lender can accomplish this by ensuring that its employees who perform work related to VA lending: • understand and comply with VA policies, procedures and regulations, and applicable law, and • direct questions to VA when issues arise that are not addressed in this handbook or other materials provided by VA. c. When is a Loan that was Closed Automatically Guaranteed? A loan is automatically guaranteed by VA upon closing (prior to issuance of the LGC) provided the loan was made by: • a supervised or a nonsupervised lender with automatic authority, and • the lender complied with applicable law and regulations. Continued on next page VA Pamphlet 26-7, Revised Chapter 3: The VA Loan and Guaranty 3-24 11. What Does a VA Guaranty Mean to the Lender?, Continued d. When is a Prior Approval Loan Guaranteed? A prior approval loan is also guaranteed by VA upon closing (prior to issuance of the LGC) provided: • the closed loan matches the proposed loan upon which the Certificate of Commitment was based, and • the lender complied with applicable law and regulations. e. What is Evidence of Guaranty? Evidence of guaranty is VA Form 26-1899, Loan Guaranty Certificate, which is generated electronically via VA's webLGY application. The LGC represents tangible proof to the lender that VA's guaranty is given in good faith. It is contingent upon: • the veteran, property and purpose of the loan being eligible, • no fraud or material misrepresentation on the part of the lender, and • the lender's compliance with applicable law and regulations. For example, VA may deny or reduce payment on a future claim based on the lender or holder's noncompliance whether or not VA has issued evidence of guaranty on the loan. The LGC also has an audit indicator that, if noted Yes, lets the lender know the case has been identified for full review. In these instances, the lender then needs to submit a complete loan origination package to the appropriate VA office for review. Packages should be submitted within 15 days of the LGC being generated. f. Total Loss of Guaranty Willful fraud or material misrepresentation by the lender or holder, or by an agent of either, will relieve VA of liability for payment of any claim on the loan. VA also has no liability in the case of: • forgery on the note, mortgage, loan application, or other loan documents, or • a Certificate of Eligibility or discharge papers that are counterfeited, falsified, or not issued by the Government. A holder of a VA loan who acquired the loan without notice or knowledge of

fraud or material misrepresentation in procuring the guaranty will not be denied payment of any claim on the loan by reason of such fraud or material misrepresentation. Continued on next page VA Pamphlet 26-7, Revised Chapter 3: The VA Loan and Guaranty 3-25 11. What Does a VA Guaranty Mean to the Lender?, Continued g. Partial Loss of Guaranty A holder of a VA loan who fails to comply with applicable laws and regulations may receive only partial payment of a claim if VA's liability increases due to the holder's noncompliance. Material misrepresentation which is not willful has the same consequence. No claim will be paid on such loan until the amount of any increase in VA's liability is known. The burden of proof is on the holder to establish that VA's increased liability is not due to the holder's noncompliance or misrepresentation. Examples of noncompliance with applicable law and regulations which may lead to an increase in VA's liability include: • failure to obtain and retain the required lien on property to secure the loan, • failure to include the power to substitute trustees, • failure to procure and maintain insurance coverage, • failure to advise VA as to default, • failure to provide notice of intention to begin foreclosure action, • failure to provide notice to VA in any suit or action, or notice of sale, • improper release, conveyance, substitution or exchange of security, • lack of legal capacity of a party to the transaction, • failure to assure that escrowed/earmarked funds are expended in accordance with the agreement, and • failure to take into consideration limitations upon the quantum or quality of the estate or property. VA Pamphlet 26-7, Revised Chapter 3: The VA Loan and Guaranty 3-26

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