VA Lenders Handbook (VA Pamphlet 26-7), Chapter 4, Topic 8 — Automated Underwriting Cases (AUS)

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8. Automated Underwriting Cases (AUS) b. Underwriter's Certification Because the AUS will be making the determination that the loan satisfies credit and income requirements, cases receiving an "Accept" or "Approve" rating will not require the underwriter's signature on VA Form 26-6393, Loan Analysis (items 49 through 53). However, the file must still contain the Lender's Certification referenced in Chapter 5 of the VA Lender's Handbook. Continued on next page Change Date a. General AUS Information February 22, 2019 • This chapter has been revised in its entirety. VA has approved Freddie Mac's Loan Prospector, Fannie Mae's Desktop Underwriter, and VA approved proprietary lender AUS systems to use in connection with VA-guaranteed home loans. These systems incorporate VA's credit standards and processing requirements. Lenders may use certain reduced documentation requirements on cases processed with approved AUS. The level of reduced documentation depends on the risk classification assigned. The systems use different terminology such as Approve or Accept. The tables in this section give a general description of documentation waivers. Please note that the documentation requirements are the same for these cases as for non-AUS cases, except for any differences cited in the tables. The automated systems do not approve or disapprove loans. They merely determine a risk classification. It is still the lenders underwriter's decision whether or not to approve the loan. Although VA has approved the use of these systems, we are not the vendor. The terms and conditions of use must be negotiated directly with the provider of these systems. It is imperative that the data entered into the automated underwriting system be accurately verified. The data utilized by the system must be supported by source documentation obtained by the lender. Inaccurate or unverified data will result in invalidation of the risk classification. Under certain circumstances, it could also result in a finding of material misrepresentation, which could affect the validity of the guaranty. VA Pamphlet 26-7, Revised Chapter 4: Credit Underwriting 4-57 8. Automated Underwriting Cases (AUS), continued c. Documentation Guidelines for Credit History Refer to the following table for documentation guidelines for credit history: Subject and Reference Documentation Classification Documentation Guidelines and Reductions for Refer Documentation Reductions for Accept/Approve Types of credit reports used in reconciliation (Topic 7 of this chapter) Use any of the following if ≤120 or 180-days old (existing/new constructions): All in-file reports, Selected in-file reports, Merged credit report, or RMCR Same as Refer. Explanation of discrepancies in reported debt (Topic 5 of this chapter) No explanation is required. Same as Refer. Rental payment history (Topic 7 of this chapter) Provide a 24 month rental history directly from the landlord, through information shown on credit report or by cancelled checks No verification of rent is required. Verification of significant non- mortgage debt (Topic 5 of this chapter) Obtain direct verification for significant debts not reported on the credit report. Note: Significant means that the debt has a monthly payment exceeding 2 percent of the stable monthly income for all borrowers. Same as Refer. Note: Perform manual downgrade to Refer if direct verification reveals more than

1 by 30 day late payment in the past 12 months for any of the omitted debts. Continued on next page VA Pamphlet 26-7, Revised Chapter 4: Credit Underwriting 4-58 8. Automated Underwriting Cases (AUS), continued c. Documentation Guidelines for Credit History, continued Refer to the following table for documentation guidelines for credit history: Subject and Reference Documentation Classification Documentation Guidelines and Reductions for Refer Documentation Reductions for Accept/Approve Mortgage payment history (Topic 7 of this chapter) Obtain direct verification when ratings are not available on mortgages that are any of the following: • Outstanding, • Assumed, or • Recently retired. A written explanation of mortgage payment history is required for borrowers with more than 1 by 30 day late payment for all mortgages for the past 12 months. Perform manual downgrade to Refer for any mortgage debt with more than 1 by 30 day late payment in the past 12 months. Account balances (Topic 7 of this chapter) If a mortgage or other significant debt is listed on the credit report as past due and was last updated ≥90 days, verify current status of past due debt. Same as Refer, however if rating is currently ≥90 days past due, manually downgrade to Refer. Derogatory credit information (Topic 7 of this chapter) Obtain explanation for derogatory credit. Explain assessment of creditworthiness on VA Form 26- 6393, Loan Analysis. No determination of credit worthiness is required. Continued on next page VA Pamphlet 26-7, Revised Chapter 4: Credit Underwriting 4-59 8. Automated Underwriting Cases (AUS), continued c. Documentation Guidelines for Credit History, continued Refer to the following table for documentation guidelines for credit history: Subject and Reference Documentation Classification Documentation Guidelines and Reductions for Refer Documentation Reductions for Accept/Approve Alimony and/or child support payments (Topic 2 of this chapter) Provide the following: • Proof of deposits on bank statements for 3 months, and • Front page and details of support payments from the divorce decree, indicating evidence of at least 3 years continuance. Same as Refer. d. Documentation Guidelines for Borrower(s) Not Self-Employed Refer to the following table for documentation guidelines for employment/income for borrower(s) who are not self-employed: Subject and Reference Documentation Classification Documentation Guidelines and Reductions for Refer Documentation Reductions for Accept/Approve Employment gaps (Topic 2 of this chapter) No explanation for employment gaps is required if the gaps are <30 days. No explanation for employment gaps is required if gaps are <60 days. Verifying current employment for borrowers who are not self-employed (Topic 2 of this chapter) Document telephone contact verifying borrower’s current employer. Use pay stubs covering at least 1 full month of employment and contains the following: • Year-to-Date (YTD) information, • Bonus information, and • Overtime information. Same as Refer. Continued on next page VA Pamphlet 26-7, Revised Chapter 4: Credit Underwriting 4-60 8. Automated Underwriting Cases (AUS), continued d. Documentation Guidelines for Borrower(s) Not Self-Employed, continued Refer to the following table for documentation guidelines for employment/income for borrower(s) who are not self-employed: Subject and Reference Documentation Classification Documentation Guidelines and Reductions for Refer Documentation Reductions for Accept/Approve Verifying previous employment (Topic 2 of this chapter) Use a VOE or any of the following, covering the 2-year period prior to closing: • W-2 Forms, or • Income information obtained from the IRS via one of the following forms: □ Form 8821, Tax Information Authorization, (or alternate form acceptable to the IRS that collects comparable information) or □ Form 4506, Request for Copy of Tax Return, (or alternate form acceptable to the IRS that collects comparable information). • No VOE or W-2 Forms are required for a borrower on active duty. • The Leave and Earning Statement (LES) should be used. No VOE is required if the borrower has been with the same employer for 1 year and W-2 Forms for 1 previous year have been collected. No W-2 Forms are

required for a borrower on active duty. No W-2 Forms are required if all of the following are met: • Borrower is with the same employer >2 years • Employer phone contact verifies the length of employment and current status (still employed) • Borrower is not self- employed or commissioned • Bonus, overtime, or secondary income is not needed to qualify • Stable monthly income is to be determined by using current base pay only (rather than total earnings) • Borrower signs one of the following for the previous 2 tax years: o Form 8821, and o Form 4506. Continued on next page VA Pamphlet 26-7, Revised Chapter 4: Credit Underwriting 4-61 8. Automated Underwriting Cases (AUS), continued e. Documentation Guidelines for Borrower(s) Self-Employed Refer to the following table for documentation guidelines for employment/income for borrower(s) who are self-employed: Subject and Reference Documentation Classification Documentation Guidelines and Reductions for Refer Documentation Reductions for Accept/Approve Individual tax returns for self- employed borrowers (Topic 2 of this chapter) Provide one of the following, with all line items captured: • signed copies of individual tax returns for the most recent 2- year period or tax transcripts, or • individual income information obtained from the IRS via one of the following forms: • Form 8821 (or an alternate form acceptable to the IRS that collects comparable information) or • Form 4506 (or an alternate form acceptable to the IRS that collects comparable information). Same as Refer. Continued on next page VA Pamphlet 26-7, Revised Chapter 4: Credit Underwriting 4-62 8. Automated Underwriting Cases (AUS), continued e. Documentation Guidelines for Borrower(s) Self-Employed, continued Refer to the following table for documentation guidelines for employment/income for borrower(s) who are self-employed: Subject and Reference Documentation Classification Documentation Guidelines and Reductions for Refer Documentation Reductions for Accept/Approve Balance sheets and profit and loss statements for self- employed borrowers (Topic 2 of this chapter) No balance sheet or YTD Profit and Loss (YTD P&L) is required if origination date is < 7 months from the business' fiscal year end (for which tax returns or information from the IRS via Form 8821 or Form 4506 were provided). No balance sheet or YTD P&L is required. Business tax returns for self-employed borrowers (Topic 2 of this chapter) Provide one of the following, with all line items captured: • Signed copies of business tax returns for the most recent 2-year period. • Business income information obtained from the IRS via one of the following forms: o Form 8821 (or an alternate form acceptable to the IRS that collects comparable information) or o Form 4506 (or an alternate form acceptable to the IRS that collects comparable information). No business tax returns are required if all of the following conditions are met: • Borrower proves ownership of the business for at least the past 5 years. • Individual tax returns reflect consistent income for the past 2 years. • Funds for downpayment or closing costs are not from the business. Continued on next page VA Pamphlet 26-7, Revised Chapter 4: Credit Underwriting 4-63 8. Automated Underwriting Cases (AUS), continued f. Documentation Guidelines for Assets Refer to the following table for documentation guidelines for assets: Subject and Reference Documentation Classification Documentation Guidelines and Reductions for Refer Documentation Reductions for Accept/Approve Verify assets to close in the borrower's name (Topic 4 of this chapter) Provide bank/asset statements covering the most recent 2- month period in lieu of a Verification of Deposit (VOD). Provide bank/asset statements covering most recent 1- month period in lieu of a VOD. VA Pamphlet 26-7, Revised Chapter 4: Credit Underwriting 4-64

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