

VA Lenders Handbook (VA Pamphlet 26-7), Chapter 4, Topic 9 — How to Complete VA Form 26-6393, Loan Analysis

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9. How to Complete VA Form 26-6393, Loan Analysis Change Date a. General February 22, 2019 • This chapter has been revised in its entirety. In order to properly enter information on VA Form 26-6393, Loan Analysis, the underwriter must understand and apply the guidelines provided in the preceding sections of this chapter. b. Estimated Monthly Shelter Expenses Special instructions are listed in the following table: Item Special Instructions 16 If taxes are expected to increase, use the increased amount. 17 Include the flood insurance premium for properties located in special flood hazard areas. 18 If special assessments are anticipated, use the anticipated amount. 19 Calculate maintenance and utility costs using 14¢ per square foot for the gross living area as per the appraisal. Example: A 1,500 square foot home with a 1,500 square foot unfished basement would have a combined maintenance and utility cost of \$210 (1,500sq X .14). 20 For condominiums or houses in a Planned Unit Development (PUD), include the monthly amount of maintenance assessment payable to the homeowner's association. c. Debts and Obligations List all known debts and obligations of the borrower and spouse including any alimony and/or child support payments. Spousal support or alimony may be treated as a reduction in income; however, child support is to be treated as a liability. Place a check mark in the (3) column next to any "significant" debt or obligation. See the topic "Analysis of Debts and Obligations" in Topic 4.05c of this chapter, for an explanation of "significant." Job Related Expense – Section D line 29. Include any costs for child care, significant commuting costs, and any other direct or incidental costs associated with the borrower's (or spouse's) employment. Check this item if total job-related expenses are significant. Continued on next page VA Pamphlet 26-7, Revised Chapter 4: Credit Underwriting 4-65 9. How to Complete VA Form 26-6393, Loan Analysis, continued c. Debts and Obligations, continued Up to age 12, the lender is responsible for determining if there are any child care expenses for the borrower(s). d. Federal Income Tax- Item 32 Enter the borrower's estimated monthly Federal income tax, based upon IRS tax tables. If the borrower has a MCC, reduce the Federal income tax by the estimated tax credit. See Topic 3, subsection b of this chapter for MCC. e. Balance Available for Family Support- Item 43 Enter the appropriate residual income amount from the following tables in the "guideline" box. Residual income is the amount of net income remaining (after deduction of debts and obligations and monthly shelter expenses) to cover family living expenses. The numbers are based on data supplied in the Consumer Expenditures Survey (CES) published by the Department of Labor's Bureau of Labor Statistics. They vary according to loan size, family size, and region of the country. Residual Tables. A key to the geographic regions is listed in the following tables: Table of Residual Incomes by Region for Loan Amounts of \$79,999 and Below Family Size Northeast Midwest South West 1 \$390 \$382 \$382 \$425 2 \$654 \$641 \$641 \$713 3 \$788 \$772 \$772 \$859 4 \$888 \$868 \$868 \$967 5 \$921 \$902 \$902 \$1,004 over 5 Add \$75 for each additional member up to a family of seven. Continued on next page VA Pamphlet 26-7, Revised Chapter 4: Credit Underwriting 4-66 9. How to Complete

VA Form 26-6393, Loan Analysis, continued e. Balance Available for Family Support- Item 43, continued Table of Residual Incomes by Region for Loan Amounts of \$80,000 and Above Family Size Northeast Midwest South West 1 \$450 \$441 \$441 \$491 2 \$755 \$738 \$738 \$823 3 \$909 \$889 \$889 \$990 4 \$1,025 \$1,003 \$1,003 \$1,117 5 \$1,062 \$1,039 \$1,039 \$1,158 over 5 Add \$80 for each additional member up to a family of seven. Key to Geographic Regions Used in the Preceding Tables Northeast Connecticut Maine Massachusetts New Hampshire New Jersey New York Pennsylvania Rhode Island Vermont Midwest Illinois Indiana Iowa Kansas Michigan Minnesota Missouri Nebraska North Dakota Ohio South Dakota Wisconsin South Alabama Arkansas Delaware District of Columbia Florida Georgia Kentucky Louisiana Maryland Mississippi North Carolina Oklahoma Puerto Rico South Carolina Tennessee Texas Virginia West Virginia West Alaska Arizona California Colorado Hawaii Idaho Montana Nevada New Mexico Oregon Utah Washington Wyoming Continued on next page VA Pamphlet 26-7, Revised Chapter 4: Credit Underwriting 4-67 9. How to Complete VA Form 26-6393, Loan Analysis, continued e. Balance Available for Family Support- Item 43, continued Examples A Veteran has a family size of 3 purchasing a home in Arizona with a loan amount of \$400,000. The residual figure will be \$990. A Veteran has a family size of 8 purchasing a home in Georgia with a loan amount of \$150,000. The residual figure will be \$1,199 (family size of 5 which is \$1,039 adding \$80 for each additional family member up to a family size of 7). The eighth person will not be considered in the calculation. Special Instructions Count all members of the household (without regard to the nature of the relationship) when determining "family size," including: • A borrower's spouse who is not joining in title or on the note, and • Any other individuals who depend on the borrower for support. If a dependent is claimed on the Federal Tax Returns, then the dependent must be considered as a member of the household to calculate residual income. Examples • Children from a spouse's prior marriage who are not the borrower's legal dependents. • A dependent parent. Exceptions for Considering All Members of the Household The lender may omit any individuals from "family size" who are fully supported from a source of verified income which, for whatever reason, is not included in effective income in the loan analysis. Examples • a spouse not obligated on the title or on the note that has stable and reliable income sufficient to support his or her living expenses. • a child for whom sufficient foster care payments or child support is received regularly, or • a parent who has sufficient stable and reliable non-taxable income. Continued on next page VA Pamphlet 26-7, Revised Chapter 4: Credit Underwriting 4-68 9. How to Complete VA Form 26-6393, Loan Analysis, continued e. Balance Available for Family Support- Item 43, continued Reducing the Residual Income Figures Reduce the residual income figure (from the above tables) by five percent if: • the borrower(s) is an active duty or retired serviceperson, or • there is a clear indication that a borrower will receive the benefits resulting from use of military-based facilities located near the property. Examples include Guard and Reserve military retirees, 100 percent disabled Veterans and their family members, or Medal of Honor recipients. f. Debt-to- Income Ratio, Item 44 VA's debt-to-income ratio is a ratio of total monthly debt payments (housing expense, installment debts, and other debt) to gross monthly income. The following steps are required to determine the debt-to-income ratio: The "Debt-to-Income Ratio" heading in Topic 10, subsection b of this chapter contains special procedures to apply if the ratio exceeds 41 percent. Only the borrower's actual income may be used to calculate the residual income. Care should be exercised to ensure that the income considered tax-exempt is likely to continue and remain untaxed. Tax-free income includes certain military allowances, child support payments, workers' compensation benefits, disability retirement payments, and certain types of public assistance payments. Step Description 1 Add: Items 15 + 16 + 17 + 18 +20 +40 = Debt 2 Add: Items 31 + 38*

= Income 3 Divide: Debt * Income = Debt-to-Income Ratio 4 Round: To the nearest two digits Continued on next page VA Pamphlet 26-7, Revised Chapter 4: Credit Underwriting 4-69 9. How to Complete VA Form 26-6393, Loan Analysis, continued f. Debt-to- Income Ratio, Item 44, continued Verify that the income is indeed tax-free before “grossing up.” Tax-free income may be “grossed up” for purposes of calculating the debt-to- income ratio only. • This is a tool that may be used to lower the debt ratio for borrowers who clearly qualify for the loan. • “Grossing up” involves adjusting the income upward to a pre-tax or gross income amount which, after deducting state and Federal income taxes, equals the tax-exempt income. • Use current IRS and state income tax withholding tables to determine an amount which can be prudently employed to adjust the borrower’s actual income. Use a figure of 125 percent of the borrower’s non- taxable income when “grossing up.” • Do not add non-taxable income to taxable income before “grossing up.” • If “grossing up” is used, indicate such and provide the “grossed up” ratio of 125 percent in item 47, “Remarks.” The actual amounts of the borrower’s non-taxable income should not be adjusted in in line 38. g. Past Credit Record- Item 45 Indicate whether the borrower (and spouse, if applicable) is a satisfactory or unsatisfactory credit risk based on a complete analysis of credit data. VA Pamphlet 26-7, Revised Chapter 4: Credit Underwriting 4-70

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