VA Lenders Handbook (VA Pamphlet 26-7), Chapter 4, Topic 10 — How to Analyze the Information on VA Form 26-6393,

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10. How to Analyze the Information on VA Form 26-6393, Loan Analysis Change Date a. Residual Income February 22, 2019 • This chapter has been revised in its entirety. VA's minimum residual incomes (balance available for family support) are a guide. They should not automatically trigger approval or rejection of a loan. Instead, consider residual income in conjunction with all other credit factors. However, an inadequate residual income alone can be a basis for disapproving a loan. If residual income is marginal, look to other indicators such as the borrower's credit history, and in particular, whether and how the borrower has previously handled similar housing expense. Consider the ages of the borrower's dependents in determining the adequacy of residual income. b. Debt-to Income Ratio VA's debt-to-income ratio is a ratio of total monthly debt payments (housing expense, installment debts, and other obligations listed in section D of VA Form 26-6393, Loan Analysis, to gross monthly income. It is a guide and, as an underwriting factor, it is secondary to the residual income. It should not automatically trigger approval or rejection of a loan. Instead, consider the ratio in conjunction with all other credit factors. A ratio greater than 41 percent requires close scrutiny unless: • the ratio is greater than 41 percent unless it is larger due solely to the existence of tax-free income which should be noted in the loan file), the loan may be approved with justification, by the underwriter's supervisor, or • residual income exceeds the guideline by at least 20 percent. Loans closed automatically with a debt-to-income ratio greater than 41 percent: • Include a statement justifying the reasons for approval, signed by the underwriter's supervisor, unless residual income exceeds the guideline by at least 20 percent. • The statement must include the reason(s) for approving the loan and list the compensating factors justifying approval of the loan. Continued on next page VA Pamphlet 26-7, Revised Chapter 4: Credit Underwriting 4-71 10. How to Analyze the Information on VA Form 26-6393, Loan Analysis, continued c. Credit History A poor credit history alone is a basis for disapproving a loan. If credit history is marginal, look to other factors such as residual income. d. Compensating Factors Compensating factors may affect the loan decision. These factors are especially important when reviewing loans which are marginal with respect to residual income or debt-to-income ratio. They cannot be used to compensate for unsatisfactory credit. Valid compensating factors should represent strengths rather than mere satisfaction of basic program requirements. For example, the fact that a borrower has sufficient assets for closing purposes, or meets the residual income guideline, is not a compensating factor. Valid compensating factors should logically be able to compensate (to some extent) for the identified weakness in the loan. For example, significant liquid assets may compensate for a residual income shortfall whereas long-term employment would not. Compensating factors include, but are not limited to the following: • excellent credit history, • conservative use of consumer credit, • minimal consumer debt, • long-term employment, • significant liquid assets, • sizable downpayment, • the existence of equity in refinancing loans, • little or no increase in shelter expense, • military benefits, • satisfactory homeownership

experience, • high residual income, • low debt-to-income ratio, • tax credits for child care, and • tax benefits of home ownership Continued on next page VA Pamphlet 26-7, Revised Chapter 4: Credit Underwriting 4-72 10. How to Analyze the Information on VA Form 26-6393, Loan Analysis, continued e. Compare Previous and Proposed Shelter Expenses Closely scrutinize a case in which the borrower will be paying significantly higher shelter expenses than he or she currently pays. Consider the: • ability of the borrower to accumulate liquid assets, and • amount of debts incurred while paying a less amount for shelter. If a borrower's application shows little or no reserves and excessive obligations, it may not be reasonable to conclude that a substantial increase in shelter expenses can be absorbed. f. Home Mortgage Disclosure Act (HMDA) As a result of releases of Home Mortgage Disclosure Act (HMDA) data, many lenders are increasingly concerned that they are taking all appropriate measures to assure access by minorities and lower income households to home mortgage loans. VA believes that it is important for lenders to be aware of how effectively the VA Home Loan Program can assist them in meeting this goal. Compatibility of VA Program with HMDA The no down payment feature is, of course, a primary advantage for individuals with low-to-moderate incomes. However, lenders should not overlook other aspects of the VA program that will help in underwriting loans for such borrowers. VA Credit Standards are written as guidelines and are meant to be interpreted and used just that way, taking into consideration all of an individual loan borrower's financial, employment and family circumstances. Purpose of HMDA VA encourages underwriters to find ways to approve loan applications which ought to be approved but may not appear approvable upon direct application of the credit standards. Underwriters are encouraged to give consideration to every possible appropriate factor in seeking a proper basis for approving loan applications for every qualified Veteran.

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