VA Lenders Handbook (VA Pamphlet 26-7), Chapter 5, Topic 3 — Prior Approval Loan Procedures

Register va-m26-7-ch05-t03

VA Lenders Handbook (VA Pamphlet 26-7), Chapter 5, Topic 3 — Prior Approval Loan Procedures.

1 verbatim provision(s). Each quote is a verified substring of the regulator-published source snapshot, not retyped.

VA Lenders Handbook (VA Pamphlet 26-7), Chapter 5, Topic 3 — Prior Approval Loan Procedures

3. Prior Approval Loan Procedures Change Date April 1, 2019 • This chapter has been revised in its entirety. a. Loans to be Submitted for Prior Approval Lenders without automatic authority are strongly encouraged to enter into a sponsor/agent relationship with a VA-approved automatic lender to expedite VA loan processing and underwriting. If a lender does not have a sponsor, then they must submit an application to VA for prior approval lending. Those without sponsors or automatic authority must upload all loans into WebLGY for prior approval, except IRRRLs made to refinance loans that are not delinquent (see Chapter 1 of this handbook). Lenders must upload all prior approval documents into WebLGY, for RLC review (see Subsection c of this Topic). A user's guide for uploading prior approval loans is available online at http://www.benefits.va.gov/homeloans/documents/docs/prior_approval_LP_le nders.pdf. All lenders, whether or not they have automatic authority, must submit the following types of loans to VA for prior approval: • joint loans, except Veteran-Veteran as a married couple (see Chapter 7 of this handbook) • loans to Veteran in receipt of VA nonservice-connected pension. This is not the same as VA disability – income based (see Chapter 7 of this handbook) • loans to Veterans who have a VA Fiduciary (see Chapter 7 of this handbook) • IRRRLs made to refinance delinquent loans (See Chapter 6 of this handbook) • manufactured home loans (home is not titled as real-estate) • supplemental loans Note: COEs may indicate to submit VA Form 26-8937, Verification of VA Benefits. The form is completed by the VA RLC of jurisdiction where the property is located, and will indicate whether the Veteran receives VA non- service connected pension or has a VA Fiduciary. For a list of all VA offices and their jurisdictions visit https://www.benefits.va.gov/HOMELOANS/contact.asp. Continued on next page VA Pamphlet 26-7, Revised Chapter 5: How to Process VA Loans and Submit them to VA 5-7 3. Prior Approval Loan Procedures, continued a. Loans to be Submitted for Prior Approval, continued b. Before Requesting Prior Approval Lenders with automatic authority may also elect to discuss a loan issue with the RLC (of a type not on the above list) when issues or circumstances cannot be resolved by the lender's own underwriting staff. However, the underwriter must first attempt to contact the VA RLC of jurisdiction of where the property is located to discuss the circumstances with a Loan Specialist. While VA cannot make the final underwriting determination without reviewing the loan, the VA RLC can discuss VA guidelines found in this handbook to assist the underwriter in making a determination. VA cannot address overlays established by a company or investor and the loan should not be submitted as a prior approval for the lender to overcome any company or investor requirements. The lender must furnish a cover letter with the uploaded file that states the reason(s) for the prior approval submission and explains any unique circumstances. In addition, the cover letter must include the submitting underwriter's name, phone number, e-mail address and his or her manager's name, phone number, and e-mail address. Do not use this provision to shift the burden of a loan denial to VA. The lender must perform the following steps prior to submitting a loan package for prior approval: • establish the reasonable value of the property with the issuance of an NOV,

• underwrite the loan and provide a completed and legibly signed VA Form 26-6393, Loan Analysis, and • ensure active duty members receive counseling using VA Form 26- 0592, Counseling Checklist for Military Homebuyers. The loan package will be returned and processing delayed if all documents are not submitted with the original upload. Continued on next page VA Pamphlet 26-7, Revised Chapter 5: How to Process VA Loans and Submit them to VA 5-8 3. Prior Approval Loan Procedures, continued c. How to Request Prior Approval Purchase and regular "cash-out" refinance prior approvals must have the following documents uploaded to WebLGY in the order listed: Order Document 1 Lender's cover or transmittal letter, including the reason for submission 2 VA Form 26-8937, Verification of VA Benefits (if applicable) 3 URLA with revised VA Form 26-1802a, Department of Housing and Urban Development (HUD)/VA Addendum to URLA. These final forms must be properly completed, legible, signed, and dated. 4 VA Form 26-8497, Request for Verification of Employment or alternative verification of employment (VOE), and other verifications of income such as pay stubs and tax returns. 5 CAIVRS; borrower/co-borrower 6 All credit reports obtained in connection with the loan and any related documentation. 7 VA Form 26-8497a, Request for Verification of Deposit or alternative verification of deposit (VOD) 8 VA Form 26-6393, Loan Analysis, completed and legibly signed 9 VA Form 26-0592, Counseling Checklist for Military Homebuyers, (if applicant is on active duty) 10 Loan estimate 11 Documentation of the cost of energy efficiency improvements to be included in the loan. The energy improvement loan amount cannot exceed $6,000. 12 Any other necessary documents. For example, but not limited to: loan payoff statement, POA, lenders loan quality certification, verification of rent for a 12-month rental history. Continued on next page VA Pamphlet 26-7, Revised Chapter 5: How to Process VA Loans and Submit them to VA 5-9 3. Prior Approval Loan Procedures, continued d. Prior Approval on IRRRLs An IRRRL made to refinance a loan that will be 30 or more days past due as of the date of closing, must be submitted for prior approval. The lender must first obtain sufficient information and perform sufficient analysis to determine that: • the cause of the delinquency has been resolved, and • the Veteran is able to make the proposed loan payments. e. Documenta- tion Required for an IRRRL Prior Approval Package Upload to VA in WebLGY the prior approval package for an IRRRL which contains the following information and documentation: Order Document 1 Lender's cover or transmittal letter 2 VA Form 26-8937, Verification of VA Benefits (if applicable) 3 Statement signed by the Veteran acknowledging the effect of the refinancing loan on the Veteran's loan payments and interest rate. The statement must indicate: • the interest rate and monthly payments for the new loan versus that for the old loan, and • how long it will take to recoup ALL closing costs (both those included in the loan and those paid outside of closing). 4 VA Form 26-8923, Interest Rate Reduction Refinancing Loan Worksheet 5 CAIVRS: borrower and co-borrower 6 URLA with revised VA Form 26-1802a, HUD/VA Addendum to URLA. These final forms must be properly completed and legible. Forms may be signed and dated anytime from the date of initial application to the date of loan closing. 7 VA Form 26-0503, Federal Collection Policy Notice 8 VA Form 26-0592, Counseling Checklist for Military Homebuyers, if the borrower is on active duty Continued on next page VA Pamphlet 26-7, Revised Chapter 5: How to Process VA Loans and Submit them to VA 5-10 3. Prior Approval Loan Procedures, continued e. Documentation Required for an IRRRL Prior Approval Package, continued Order Document 11 Documentation to verify that the cause of the delinquency has been corrected 12 Credit report (in-file credit report is acceptable) 13 Current pay stub and verification of current employment (see Chapter 4 of the Lender's Handbook) 14 VA Form 26-6393, Loan Analysis, completed and legibly signed 15 Documentation of the cost of energy efficiency improvements to be included in the loan (see Chapter 7 of this handbook). The energy improvement loan amount cannot exceed

$6,000. 16 Any other necessary documents. For example, but not limited to, a power of attorney (see Topic 5 of this chapter). 17 Loan payoff statement 18 The lender loan quality certification 19 Copy of a modification agreement, if the loan to be paid off is a modified loan Continued on next page VA Pamphlet 26-7, Revised Chapter 5: How to Process VA Loans and Submit them to VA 5-11 3. Prior Approval Loan Procedures, continued f. VA Processing of a Prior Approval Application VA will review the documents submitted and complete the following: • suspend processing and request additional information from the lender. • send a notice of denial to the lender and borrower, or • issue VA's certificate of commitment to the lender, which is evidence of VA's approval of the loan to close and willingness to guaranty the loan. Loans submitted on the prior approval basis have a 10-business day timeliness requirement by VA. The processing time may be extended for loans involving the receipt of VA pension income or a Veteran with a VA Fiduciary. Either the VA Pension or Fiduciary HUB may have, in addition to Loan Guaranty, to provide a review of the loan file. g. Certificate of Commitment VA's certificate of commitment must be obtained prior to closing and is the lender's evidence of VA's willingness to guaranty the loan. The lender is subsequently entitled to evidence of guaranty if the: • the closed loan is identical in all respects to that submitted to VA on the URLA and described on the certificate of commitment (or, if not identical, any required VA approval of changes was obtained prior to closing), and • the lender has complied with all applicable provisions of the law and loan guaranty regulations in making the loan. Additionally, all conditions of the certificate of commitment must be met. If, at any time prior to closing, the lender or VA has reason to doubt the continued qualification of the loan, the lender will delay closing until all facts are determined and reviewed again by VA. VA may cancel a commitment if the validity period of the certificate of commitment has expired (after 180 days), and there is no reasonable expectation that the loan will be reported for guaranty. A commitment may be extended under certain circumstances. Contact the VA office of jurisdiction of where the property is located for a review of the prior approval commitment. Continued on next page VA Pamphlet 26-7, Revised Chapter 5: How to Process VA Loans and Submit them to VA 5-12 3. Prior Approval Loan Procedures, continued Continued on next page h. Changes Occurring After Issuance of the Certificate of Commit- ment, continued If … Then … An increase in the amount of downpayment decreases the loan amount (with or without a reduction in the term of the loan) and there is no increase in the monthly mortgage payments, no VA approval is needed. Include an explanation of the change with the closing package. The maturity of the loan is extended, but does not exceed the maximum of 30 years and 32 days or the remaining economic life of the property as provided by the NOV, and there is no increase in the monthly mortgage payments, no VA approval is needed. Include an explanation of the change with the closing package. The loan amount is increased to cover the cost of energy efficiency improvements up to $6,000, no VA approval is needed. See Chapter 7 of the Lender's Handbook for special underwriting requirements and documentation required with the closing package. Any increase in the amount of discount points to be paid by the applicant above the points indicated on the certificate of commitment, no VA approval is needed. Include with the closing package: • an explanation of the change, • the URLA with changes initialed and dated by the applicant, and if previously verified assets are not sufficient to cover the additional points, verification of sufficient additional assets. The loan is to be closed at an interest rate more than 1 percent greater than the rate indicated on the certificate of commitment, VA approval is needed. Upload to WebLGY the certificate of commitment and a new URLA, signed and dated by the applicant, or the original URLA with the change initialed and dated by the applicant VA Pamphlet 26-7, Revised Chapter 5: How to Process VA Loans and Submit them to VA 5-13 3. Prior Approval Loan

Procedures, continued i. Conditional Certificates of Commitment There are circumstances when VA issues a prior approval commitment with special conditions. The table below lists circumstances and conditions that warrant special instructions and documentation before closing a loan that has been underwritten by VA. Case Condition/Notation on Certificate Loan is to the spouse of a serviceperson missing in action or prisoner of war (MIA/POW) Prior to closing the subject loan, the lender should obtain assurance from the borrower that official notice of any change in the Servicemember's status has not been received and that the applicant is still the spouse of the Servicemember. See Topic 2, subsection b, of this chapter for required documentation. Loan is to the unmarried surviving spouse of an eligible, deceased Veteran Conditioned on the borrower's certification that status as an unmarried surviving spouse has not changed since the COE was issued. See Topic 2, subsection b of this chapter for required documentation. Loan is to an active duty service person who has not been discharged and must certify to continuous active duty Certification of active duty status as of date of note required. To ensure compliance, the active duty Servicemember should check the active duty box in Section III, Veteran's Certifications, on VA Form 26-1820, Report and Certification of Loan Disbursement. Ensure that the Veteran signs the form on the date of closing. Continued on next page VA Pamphlet 26-7, Revised Chapter 5: How to Process VA Loans and Submit them to VA 5-14 3. Prior Approval Loan Procedures, continued i. Conditional Certificates of Commitment, continued Loan is to a Veteran and fiancé/fiancée who intend to marry prior to loan closing and title is to be taken in the name Veteran and spouse Conditioned on proof of marriage prior to loan closing. A copy of the applicant's marriage certificate or other proof of marriage must be submitted with the closing package. A marriage license is inadequate. Loan involves use of an attorney-in-fact No evidence of guaranty with respect to the loan to which this commitment relates will be issued by the Secretary unless the lender makes the certification specified by the Department of Veterans Affairs at the time the lender requests a certificate of guaranty to the effect that the Veteran was alive and, if the Veteran is on active military duty, not in a "missing in action" status on the date the note and security instruments were executed on the Veteran's behalf by the attorney-in-fact. Veteran intends to sell the property on which he/she has an existing VA loan prior to closing on the new VA loan, in order to have entitlement restored This commitment is conditioned upon submission of evidence of disposal of the property which the Veteran now owns and previously purchased using VA entitlement and evidence that the loan has been paid in full or that an eligible Veteran has substituted his or her entitlement for that used by the original Veteran. Veteran intends to sell property now owned in order to have sufficient income, eligibility and/or assets to qualify for the loan This commitment is conditioned upon the completion of the sale of residential real property now owned by the Veteran, as proposed in the loan application. Failure to document these conditions with the closing package can result in a delay of the guaranty, affect the percentage of guaranty, and/or affect the ability of VA to issue the Loan Guaranty Certificate (LGC). Continued on next page VA Pamphlet 26-7, Revised Chapter 5: How to Process VA Loans and Submit them to VA 5-15 3. Prior Approval Loan Procedures, continued j. Before Closing a Prior Approval Loan Complete all applicable procedures in Topic 2 of this chapter. k. How to Report Loan Closing and Request Guaranty A loan must be reported to VA within 60 days of closing. A lender that fails to meet this time limit must provide a written explanation. To report a prior approval loan (purchase, regular "cash-out" refinance, or IRRRL), upload in WebLGY the following documents to VA, in the order listed: Order Document 1 Lender's cover or transmittal letter 2 VA Form 26-0286, VA Loan Summary Sheet 3 VA Form 26-1820, Report and Certification of Loan Disbursement 4 Lender's quality certification per 38 C.F.R. part 36 and 38 U.S.C. Chapter 37 (see step 5 of the Lender Procedures in Topic 1, Chapter 4 of this handbook). 5 Closing Disclosure Statement (CD) 6 For purchase and regular “cash-out” refinances, evidence of compliance with all NOV requirements/conditions. 7 For IRRRLs only, If the loan amount has increased beyond the amount indicated on the Certificate of Commitment, an updated VA Form 26-8923, Interest Rate Reduction Refinancing Loan Worksheet. 8 If a loan is submitted more than 60 days after loan closing, a statement signed by a corporate officer of the lender that identifies the loan and provides the specific reason(s) why the loan was not submitted on time. 9 Any other necessary documents including documentation to meet any changes from or conditions listed on the certificate of commitment (see Topic 5 of this chapter) 10 Copy of the note and all riders Failure to provide any of the above documents or conditions can result in a delaying of issuing the guaranty, affect the percentage of guaranty, and/or affect the ability of VA to issue the LGC. VA Pamphlet 26-7, Revised Chapter 5: How to Process VA Loans and Submit them to VA 5-16

Source: VA Lenders Handbook (VA Pamphlet 26-7), Chapter 5, Topic 3 — Prior Approval Loan Procedures · snapshot 13ca1f98805e1a58