

VA Lenders Handbook (VA Pamphlet 26-7), Chapter 7, Topic 1 — Joint Loans

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1. Joint Loans Change Date March 11, 2019 • This chapter has been revised in its entirety a. What is a VA Joint Loan? “Joint loan” generally refers to a loan for which the: • Veteran and other person(s) are liable, and • Veteran and the other obligor(s) own the security. A joint loan is a loan made to the: • Veteran and one or more non-Veterans (not spouse), • Veteran and one or more Veterans (not spouse) who will not be using their entitlement, • Veteran and the Veteran’s spouse who is also a Veteran, and both entitlement will be used; or • Veteran and one or more other Veterans (not spouse), all of who will use their entitlement. A loan involving a Veteran and his or her spouse will not be treated as a “joint loan” if the spouse is: • not a Veteran, or • a Veteran who will not be using his or her entitlement on the loan. A loan to a Veteran and fiancé who intend to marry prior to loan closing and take title as Veteran and spouse will be treated as a loan to a Veteran and spouse (conditioned upon their marriage), and not a joint loan. b. Regulations The regulations in 38 C.F.R. 36.4307 address joint loans. c. Terminology Used in This Section For purposes of applying the principles explained in this section, this term will also be used to represent any other type of joint loan involving at least one Veteran using his or her entitlement, and at least one other person not using entitlement (can be a Veteran or a non-Veteran, but not a spouse). Continued on next page VA Pamphlet 26-7 Revised Chapter 7: Loans Requiring Special Underwriting, Guaranty, and Other Considerations 7-3 1. Joint Loans, continued c. Terminology Used in This Section, continued Examples • Three Veterans using entitlement and one non-Veteran • One Veteran using entitlement and four non-Veterans • Two Veterans using entitlement and two Veterans not using entitlement Two Veterans Joint Loan: Commonly meaning a loan involving two Veterans who are not married to each other and both are using their entitlement. For purposes of applying the principles explained in this section, this term will also be used to represent any other type of joint loan involving only Veterans, each of whom uses his or her entitlement. This may also include loans to the following: • The Veteran and the Veteran’s spouse who is also a Veteran, if both entitlements will be used. • Entitlement and funding fees are separate. Funding fees are always calculated equally by the number of people on the loan. It is based on each Veteran paying their equal share of the loan. • On a Veteran/non-Veteran loan, the funding fee is based on half of the base loan amount, downpayment, and sales price for the correct funding fee charge. • VA will only guarantee the Veteran’s portion of the total loan amount. d. Occupancy The Veteran using entitlement on a joint loan must certify intent to personally occupy the property as his or her home. e. How Many Units Can the Property Have? If a property is to be owned by two or more eligible Veterans, it may consist of four family units and one business unit, plus one additional unit for each Veteran participating in the ownership. Thus, two Veterans may purchase or construct residential property consisting of up to six family units (the basic four units plus one unit for each of the two Veterans), and one business unit. Continued on next page VA Pamphlet 26-7 Revised Chapter 7: Loans Requiring Special Underwriting, Guaranty, and Other Considerations 7-4 1. Joint Loans, continued e. How

Many Units Can the Property Have?, continued If the property contains more than four family units plus one family unit for each Veteran participating in the ownership and/or more than one business unit, the loan is not eligible for guaranty. f. Which Joint Loans Require Prior Approval? Any joint loan for which the Veteran will hold title to the property and any person other than the Veteran's spouse must be submitted for prior approval. Any loan for which the Veteran and Veteran's spouse will hold title to the property: whether or not the spouse also uses entitlement, may be closed automatically by the lender with automatic authority. This type of joint loan does not have to be submitted for prior approval. Continued on next page VA Pamphlet 26-7 Revised Chapter 7: Loans Requiring Special Underwriting, Guaranty, and Other Considerations 7-5 1. Joint Loans, continued g. How to Underwrite a Joint Loan The following underwriting considerations apply: Type of Joint Loan Underwriting Considerations Function Two Veteran Joint Loan Consider the credit and combined income and assets of both parties. Strengths of one Veteran related to income and/or assets may compensate for income/asset weaknesses of the other. However, satisfactory credit of one Veteran cannot compensate for the other's poor credit. Veteran/Non-Veteran Joint Loan Veteran's credit must be satisfactory and Veteran's income must be sufficient to repay that portion of the loan allocable to the non-Veteran. The credit of the non-Veteran must be satisfactory. However, the combined income of both borrowers can be considered in evaluating repayment ability. In other words: • income strength of the Veteran may compensate for income weakness of the non-Veteran, but • income strength of the non-Veteran cannot compensate for income weakness of the Veteran in analyzing the Veteran's ability to repay his or her allocable portion of the loan. _____ h. How to Calculate Guaranty and Entitlement Use on Veteran/Non- Veteran Joint Loans Guaranty is limited to that portion of the loan allocable to the Veteran's equal interest in the property. Percentage of entitlement has no bearing on the amount of the funding fee to be paid. (See Chapter 8). The lender must satisfy itself that the requirements of its investor or the secondary market can be met with this limited guaranty. Continued on next page VA Pamphlet 26-7 Revised Chapter 7: Loans Requiring Special Underwriting, Guaranty, and Other Considerations 7-6 1. Joint Loans, continued i. Procedure Step Action 1 Divide the total loan amount by the number of borrowers. 2 Multiply the result by the number of Veteran-borrowers who will be using entitlement on the loan. There is usually only one Veteran borrower, in which case the result of this Step is the same as the result of Step 1. 3 Calculate the maximum potential guaranty on the portion of the loan arrived at in Step 2 (as if that portion was the total loan). 4 VA will guarantee the lesser of: • the maximum potential guaranty amount arrived at in Step 3, or • the combined available entitlement of all Veteran-borrowers. 5 VA makes a charge to the Veteran-borrower's available entitlement in the amount of the guaranty. If more than one Veteran is involved, VA divides the entitlement charge equally between them, if possible. If only unequal entitlement is available, unequal charges may be made with the written agreement of the Veterans. Continued on next page VA Pamphlet 26-7 Revised Chapter 7: Loans Requiring Special Underwriting, Guaranty, and Other Considerations 7-7 1. Joint Loans, continued j. Examples Veteran/Non-Veteran Loans Borrowers and Available Entitlement Total Loan Amount Veteran's Portion Maximum Potential Guaranty on Veteran's Portion Entitlement Charge ----- T=Total Veteran \$36,000 Non-Veteran \$0 \$100,000 \$50,000 \$22,500 \$22,500 Veteran \$36,000 Non-Veteran \$0 \$290,000 \$145,000 \$36,250 \$36,250 Veteran \$27,500 Veteran \$36,000 Non-Veteran \$0 \$108,000 Total for both Veteran's \$72,000 Total for both Veteran's \$28,800 \$14,400 \$14,400 T=\$28,800 Veteran \$25,000 Veteran \$11,000 Non-Veteran \$0 \$201,000 Total for both Veteran's \$134,000 \$36,000 \$25,000 \$11,000 T=\$36,000 Continued on next page VA Pamphlet 26-7 Revised Chapter 7: Loans

Requiring Special Underwriting, Guaranty, and Other Considerations 7-8 1. Joint Loans, continued j. Examples, continued Note: The last example would require a written agreement from the Veterans to make unequal charges to their entitlement. Quick Reference For Calculation Used Step Action 1 Divide the total loan amount by the number of borrowers. 2 Multiply the result by the number of Veterans using entitlement. 3 Calculate the maximum potential guaranty on the portion of the loan arrived at in Step 2, using the maximum guaranty table in Chapter 3 of this Handbook. 4 VA will make a charge to entitlement up to the amount arrived at in Step 3. • VA will divide the charge equally between multiple Veterans, if possible. • If Step 2 is greater than \$144,000, additional entitlement may be added to each Veteran's entitlement. k. How to Calculate Guaranty and Entitlement Use on Two Veteran Joint Loans? As with a non-joint loan, the potential maximum guaranty on a joint loan is calculated based on the total loan amount. l. Procedure VA calculates the maximum potential guaranty on the total loan amount. Continued on next page VA Pamphlet 26-7 Revised Chapter 7: Loans Requiring Special Underwriting, Guaranty, and Other Considerations 7-9 1. Joint Loans, continued l. Procedure, continued Step Action 1 Calculate the maximum potential guaranty on the total loan amount. Use the maximum guaranty table in Chapter 3 of this Handbook. 2 VA will guarantee the lesser of: • the maximum potential guaranty amount arrived at in Step 1, or • the combined available entitlement of all Veteran-borrowers. If the loan amount is greater than \$144,000, additional entitlement may be added to each Veteran's entitlement. If possible, VA will use this additional entitlement to arrive at equal entitlement charges for the Veterans involved. 3 VA will make charges to the Veterans' available entitlement which total the maximum guaranty arrived at in Step 1, or the total of their available entitlement if less than the maximum potential guaranty. VA will divide the entitlement charge equally between the Veterans if possible, or, if only unequal entitlement is available, unequal charges may be made with the Veterans' written agreement. Exception: VA will make the entitlement charge for husband and wife Veterans according to their preference. Continued on next page VA Pamphlet 26-7 Revised Chapter 7: Loans Requiring Special Underwriting, Guaranty, and Other Considerations 7-10 1. Joint Loans, continued m. Examples of Two- Veteran Joint Loans Veterans and Available Entitlement Total Loan Amount Maximum Potential Guaranty Total Entitlement Charge Per Veteran

Veteran 1	\$36,000	Veteran 2	\$36,000	\$100,000	\$36,000	\$18,000	\$18,000
Veteran 1	\$23,500	Veteran 2	\$8,500	\$80,000	\$32,000	\$23,500	\$8,500
Veteran 1	\$36,000	Veteran 2	\$36,000	\$300,000	\$75,000	\$37,500	\$37,500
Veteran 1	\$15,000	Veteran 2	\$20,000	\$203,000	\$50,750	\$25,375	\$25,375
Veteran 1	\$0	Veteran 2	\$0	Veteran 3	\$6,500	\$300,000	\$75,000
					\$25,000	\$25,000	\$25,000

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will appear on the mortgage security documents; that is, mortgage note or deed of trust, only the Veteran's portion is shown on the Certificate of Commitment and the LGC. Continued on next page VA Pamphlet 26-7 Revised Chapter 7: Loans Requiring Special Underwriting, Guaranty, and Other Considerations 7-12 1. Joint Loans, continued q. Equal Credit Opportunity Act Consideration -s (ECOA) The applicability of the guaranty to only a portion of the loan in the case of a Veteran/non-Veteran joint loan may cause a lender to refuse to accept an application for such loan. This may appear to conflict with the ECOA prohibition against discrimination based on marital status; however, the lender may refuse the application under these circumstances without violating ECOA. This is based on an exemption for VA being a special purpose credit program. r. Calculation of the Funding Fee Apply the appropriate funding fee percentage to any portion of the loan allocable to a Veteran using his or her entitlement who is not exempt from the funding fee. Determine the appropriate percentage for the type of Veteran involved from the funding fee tables in Chapter 8. Example. On a no-downpayment loan to two Veterans; on a first-time homebuyer; and on a subsequent user; the funding fee percentages of 2.15 percent and 3.3 percent respectively would each be applied to one-half of the loan amount. No funding fee will be assessed on any portion of a joint loan allocable to a: • Non-Veteran • Veteran who did not use his or her entitlement, or • Veteran who used his or her entitlement, but is exempt from the funding fee. Downpayment. The actual loan amount is allocated equally between the borrowers for purposes of calculating the funding fee, whether or not a downpayment is made, and regardless of where the funds for such a downpayment come from. Example. On a Veteran/non-Veteran loan, the non-Veteran makes a \$5,000 (five percent) downpayment out of his cash resources, to purchase a \$100,000 property, resulting in a \$95,000 loan amount. The Veteran is a first-time homebuyer. The Veteran must pay a funding fee of \$712.50, based on 1.5 percent of his/her \$47,500 portion. If situations arise which are not addressed here, contact 1-877-827-3702 for assistance. _____

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