

VA Lenders Handbook (VA Pamphlet 26-7), Chapter 7, Topic 8 — Farm Residence Loans

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8. Farm Residence Loans Change Date March 11, 2019 • This chapter has been revised in its entirety. a. Eligibility A loan for the purchase, construction, repair, alteration, or improvement of a farm residence which is occupied or will be occupied by the Veteran/borrower as a home is eligible for guaranty. The loan cannot cover the: • nonresidential value of farm land in excess of the home site, • barn, silo, or other outbuildings necessary to the operation of the farm, or • Farm equipment or livestock. A portion of the proceeds of a loan to construct a farm residence on encumbered land owned by the Veteran may be used to pay off the lien, or liens on the land only if the reasonable value of the land is at least equal to the amount of the lien(s). b. Underwriting If some or all of the income necessary to support the loan payments comes from farming operations, the Veteran's ability and experience as a farm operator must be established. The procedures and analysis provided under "Self-Employment Income" in Chapter 4 apply generally. In addition, apply the following: For new farmer or new farm operation, the lender must obtain the following: • Veteran's proposed plan of operation of the farm, showing the number of acres for each crop, amount of livestock, etc., upon which an estimate of income and expenses may be made. • Veteran's statement that he or she owns, or proposes purchasing the farm equipment required to operate the farm. If additional indebtedness is to be incurred in the purchase of this equipment, the statement should contain full details as to repayment terms, etc. Continued on next page VA Pamphlet 26-7 Revised Chapter 7: Loans Requiring Special Underwriting, Guaranty, and Other Considerations 7-33 8. Farm Residence Loans, continued b. Underwriting, continued An estimate of farm income and expenses by a local farm appraiser designated by VA or another qualified person, or the estimate used by a lender that has agreed to carry an operating line of credit for the Veteran. The estimate should be based on the Veteran's proposed plan of operation, his or her ability and experience, and the nature and condition of the farm to be sold, including livestock and livestock products. The expense estimate must detail labor, seed, fertilizer, taxes and insurance, repairs, machinery, fuel, etc. • A copy of a commitment from a lender for an operating line of credit or evidence of the resources to be used to cover operating expenses. • Experienced farmer continuing the same farm operation. If the Veteran finances operations out of an operating line of credit, obtain records of advances from, payments to, and carryover balances on the operating line of credit for the last 3 years (or additional periods if needed to demonstrate stability of Veteran's operation). Analyze the reasons for any build-up of operating debt. VA Pamphlet 26-7 Revised Chapter 7: Loans Requiring Special Underwriting, Guaranty, and Other Considerations 7-34

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