

VA Lenders Handbook (VA Pamphlet 26-7), Chapter 9, Topic 5 — Secondary Borrowing

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5. Secondary Borrowing Change Date July 30, 2019 • This chapter has been revised in its entirety. a. What is Secondary Borrowing For purposes of this topic, secondary borrowing refers to the Veteran obtaining a second mortgage simultaneously with a VA-guaranteed first mortgage, both secured by the same property. This does not include HAPs (see Topic 9, Item 13 of this chapter). b. Policy Secondary borrowing is acceptable as long as: • the Veteran is not placed in a substantially worse position than if the entire amount borrowed had been guaranteed by VA, • the loan (in conjunction with the first mortgage) may not exceed the NOV, and • the requirements detailed below are met. c. Requirements The second mortgage must meet the following requirements: Factor Requirement Documentation The lender must submit documentation disclosing the source, amount, and repayment terms of the second mortgage and agreement to such terms by the Veteran and any co-borrowers. Lien Position The second mortgage must be subordinated to the VA-guaranteed loan, that is, the second mortgage must be in a junior lien position relative to the VA loan. Allowable Purposes Proceeds of the second mortgage may be used for a variety of purposes, including, but not limited to: • closing costs, or • a downpayment to meet secondary market requirement of the lender. But may not be used to cover any portion of a downpayment required by VA to cover the excess of the purchase price over VA's reasonable value. Continued on next page VA Pamphlet 26-7, Revised Chapter 9: Legal Instruments, Liens, Escrows, and Related Issues 9-10 5. Secondary Borrowing, continued c. Requirements, continued Factor Requirement Cash back There can be no cash back to the Veteran from the VA first mortgage or a second mortgage obtained simultaneously, except any cash the Veteran paid in the transaction. Underwriting The Veteran must qualify for the second mortgage which is underwritten as an additional recurring monthly obligation. Interest Rate The rate on the second mortgage may exceed the rate on the VA-guaranteed first; however, it may not exceed industry standards for second mortgages. Assumability The second mortgage should not restrict the Veteran's ability to sell the property any more than the VA first mortgage. That is, it should be assumable by creditworthy purchaser(s). Grace Period There should be a reasonable grace period before. A late charge comes due, or commencement of foreclosure proceedings in the event of default. d. Unusual Terms Second mortgages bearing unusual terms, interest rates, etc., are sometimes offered by parties such as: • federal, state, or local government agencies, • non-profit organizations, • private individual, • builders, or • sellers. e. VA Standards Consult a VA RLC with jurisdiction over the state where the property is located if it is unclear whether the terms of the second mortgage meet VA standards or if there may be a reasonable basis for VA to make an exception to the standards detailed in this topic. VA Pamphlet 26-7, Revised Chapter 9: Legal Instruments, Liens, Escrows, and Related Issues 9-11

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