



Direct Mortgage
Wholesale™

Program Guidelines

6178 Program Guideline

VA DU Purchase

VA Fixed Rate

General Description:

A fixed rate, fully amortizing mortgage guaranteed by the Department of Veterans Affairs (VA).

<p>APPRAISAL</p>	<p>Required Form</p> <ul style="list-style-type: none"> • 1-unit residence requires Fannie Mae Form 1004/Freddie Mac Form 70. • 2-4 unit residence requires Fannie Mae Form 1025/Freddie Mac Form 72. • Condo requires Fannie Mae Form 1073/Freddie Mac Form 465. • Reference <u>VA Circular 26-05-01</u>. <p>General Guidelines</p> <ul style="list-style-type: none"> • Except where indicated otherwise, all appraisals for VA loans must be ordered through the VA Appraisal System and performed by VA-approved appraisers. • The HVCC appraisal ordering process does not apply to any VA loan transaction, except for an IRRRL. • If the appraisal indicates that the subject property was previously sold within the last 12 months, the underwriter is required to determine the change in value in accordance with DMC internal policy. • The Notice of Value (NOV) for property appraised as existing, new, proposed, or under construction is valid for 6 months. • All appraisals of 1-4 unit properties dated on/after April 1, 2009 must contain the Market Conditions Addendum to the Appraisal Report (Form 1004MC). • A copy of the sales contract must be provided to the fee appraiser immediately upon assignment or within 1 business day of the appraisal request. If the agreement of sale is amended during the process, the requester must provide the updated contract to the appraiser. • DMC does not accept properties rated in "fair" condition for any loan program. • Non-Permitted additions are not allowed. <p>Appraisal Documentation</p> <ul style="list-style-type: none"> • The minimum allowed appraisal documentation is an exterior only appraisal • Property Inspection Waiver (PIW) is not allowed. <p>Purchase Price Negotiations</p> <ul style="list-style-type: none"> • DMC will no longer allow the purchase price to be renegotiated upwards if an appraisal has already been performed. This applies to all loans locked on or after 1/21/10 <p>Short Sale Restrictions</p> <ul style="list-style-type: none"> • Short sale negotiator fees may not be paid by the buyer • Additional monies to the seller's mortgage company may not be paid by the buyer
<p>BORROWERS (ELIGIBLE / INELIGIBLE)</p>	<p>General Information</p> <ul style="list-style-type: none"> • Eligibility for the VA home loan benefit can only be determined by VA and must be evidenced by a VA Certificate of Eligibility (COE). • In lieu of a Certificate of Eligibility (COE), eligibility for an IRRRL is determined by a Prior Loan Validation (PLV) showing an active loan matching the borrower and property. If the PLV shows more than one active loan, an Application for Restoration must be processed. Please see the VA Website for full details. • VA loans are generally made only to a veteran and their spouse (if married). See below for other Veteran/Borrower combinations. <p>Eligible Veteran/Borrower Combinations</p> <ul style="list-style-type: none"> • Veteran. • Veteran and non-veteran spouse. • Two veterans who are married to each other where only one veteran will be using entitlement. • Un-remarried surviving spouse of an eligible veteran who died due to service-connected injuries (if determined eligible by a VA-issued COE). • Spouse of an active-duty service person who has been listed as MIA or POW for more than 90 days (if determined eligible by a VA-issued COE). <p>Eligible Veteran/Borrower Combinations that require VA Approval (Joint Loans)</p> <ul style="list-style-type: none"> • The following borrower combinations require underwriting approval by VA and exception processing by DMC: • Pricing adjustment may apply. • Two veterans who are not married to each other where each veteran will be using entitlement.

BORROWERS (ELIGIBLE / INELIGIBLE) <i>(CONTINUED)</i>	Ineligible Veteran/Borrower Combinations Any type of borrower not listed as eligible, including but not limited to: <ul style="list-style-type: none"> • Veteran and non-veteran who is not the veteran's spouse (because VA will only issue guaranty on the veteran's portion of the loan). • Any individual without a valid U.S. Social Security Number. • Individuals with a U.S. Individual Taxpayer Identification Number (ITIN). An ITIN is formatted like a SSN but begins with "9". No valid SSN begins with a "9". • Non-occupying Veteran, except for an IRRRL on a previously owner-occupied property. See <i>OCCUPANCY</i>. • Foreign nationals and borrowers with diplomatic immunity.
CASH RESERVES	There are no reserve requirements except on the following transactions: <ul style="list-style-type: none"> • 6 months PITI if the property securing the loan is a 2-4 unit property, regardless of AUS findings. • 3 months PITI if using rental income from a property other than the property securing the VA loan, regardless of AUS findings. • Other AUS loans follow DU/LP feedback.
CASH TO BORROWER	Cash back at closing on purchase transactions Limited to "out-of-pocket" reimbursement: <ul style="list-style-type: none"> • <i>Appraisal or credit report</i>: The veteran may receive cash-back at closing up to their out-of-pocket cost, provided the amounts paid are listed as POC-borrower on the HUD-1. Further verification of payment by the veteran is not required. • <i>Earnest money</i>: The veteran may receive cash-back at closing up to the amount of their earnest money deposited with the settlement agent and credited on the HUD-1. Further verification of payment by the veteran is not required. Cash back at closing on refinance transactions <ul style="list-style-type: none"> • <i>IRRRLs</i>: "Cash-out" is not allowed. Veteran can receive up to \$100 due to changes in final payoff figures, minor computational errors, or reimbursement of out-of-pocket expense (i.e. credit report). It is not acceptable to calculate the loan amount with the intention of returning cash to the veteran. • <i>Cash-out refinance</i>: There are no restrictions on the amount of cash the veteran may receive after all liens are paid off, provided the 90% LTV and 25% guaranty requirements are met (see <i>REFINANCE TRANSACTIONS</i>). A home that is owned free and clear may not be refinanced.
CLOSING COSTS	The veteran can pay a maximum of: <ul style="list-style-type: none"> • A 1% flat charge (typically called an "Origination Fee"), plus, • Actual discount points used to buy down the interest rate, plus, • Reasonable and customary amounts for any or all of these "Itemized Fees and Charges" <ul style="list-style-type: none"> – Appraisals, including second appraisals requested by the veterans for reconsideration of value – Compliance inspections on new construction – Home inspection if desired by veteran – Credit report or on AUS-decisioned loans, up to \$50 evaluation fee charged in lieu of a credit report. – Recording fees and recording taxes – MERS registration fee – Hazard insurance premium including flood insurance, if required. – Flood zone determination – Survey fee – Title exam and insurance – VA funding fee – Prepaid items for taxes, assessments, and similar items for the current year chargeable to the veteran and the initial deposit for the impound account – Overnight courier fees on a refinance if interest savings will exceed the cost of special handling • Lender and seller credits for costs paid on behalf of the veteran must be itemized on the HUD-1. An unidentified, lump-sum credit is not acceptable. • <u>The veteran may never any under circumstances pay a termite inspection fee on a purchase transaction.</u> • Fees and charges must comply with all Federal, State and local regulations and predatory lending rules.
CLOSING REQUIREMENTS	<ul style="list-style-type: none"> • Standard fixed rate documentation. • Interest credit allowed. Loan must close by the 7th calendar day of the month preceding the first payment date. • Power of Attorney allowed. Must meet the requirements of <u>VA Lenders Handbook Ch 9 Sec 7</u> and be accompanied by an "Alive and Well Statement" obtained at the time of closing (see par b. and c. of the referenced section). • Termite, Well Inspections/Certifications are required on all VA loan types except IRRRLs. Some areas are exempted from termite inspections by <u>VA Local Requirements</u>. (Note: If the area is exempt, it will be specifically stated as such. "No local conditions" does not mean inspections are not required; it simply means there are no <i>additional</i> local requirements.)

CLOSING REQUIREMENTS <i>(continued)</i>	<ul style="list-style-type: none"> • Septic Inspections are required for properties appraised as proposed or under construction, and in new and existing construction cases in which there is an indication of a problem or the property is in an area known to have soil percolation problems. • A minimum of 24 months chain of title as evidenced by the title commitment. • Maximum days rent back allowed are 60. On an owner-occupant loan the borrower is to be occupying the property within 60 days of the closing. 						
CONDOS/PUDS	<ul style="list-style-type: none"> • We now require a condominium borrower to obtain a "Walls In" policy (commonly known as a HO-6 policy). Coverage is to include interior walls, floor coverings, fixtures, cabinetry, appliances, and improvements and betterments made to the unit's interior. The HO-6 policy must provide coverage is an amount that is no less than 20% of the condominium unit's appraised value. • Condominium projects must be approved in the VA's Condo/PUD – Builder (CPB) <p>Eligible</p> <ul style="list-style-type: none"> • Condos must be listed on VA's Approved Condo List. The nationwide list of VA approved condominiums is located at http://condopudbuilder.vba.va.gov/2.2/frames.html. • PUD's do not require VA approval. <p>Ineligible</p> <ul style="list-style-type: none"> • Multiple units not eligible. • Leasehold condos. 						
CREDIT HISTORY (ALSO SEE CREDIT SCORES, REFINANCE TRANSACTIONS AND UNERWRITING)	<p>Automated Underwriting Refer to the <i>Credit Scores and Underwriting</i> sections of this guide for additional requirements and guidelines.</p> <p>30-year terms as approved by DU/LP and successfully validated by DMC, except:</p> <ul style="list-style-type: none"> • See <i>CREDIT SCORES and RATIOS</i>. • Loans with Non-Traditional Credit. • IRRRL refinance transactions where the 12-month mortgage history report shows > 0 x 30 on any mortgage account. See <i>REFINANCE TRANSACTIONS</i>. (DMC does not recommend submitting IRRRLs through AUS, see <i>UNDERWRITING</i>.) • Any loan with a term of less than 30 years will be accepted with an AUS approval as long as it also receives a 30-year term AUS approval, which will be run internally by one of DMC's underwriters. • Community Property States (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin): <ul style="list-style-type: none"> • Debts of a non-purchasing spouse must be counted in the borrower's qualifying ratios. • Credit of a non-purchasing spouse must be evaluated by DU/LP since VA does require the credit performance of a non-purchasing spouse to be considered. • The non-purchasing spouse must meet DMC minimum credit score requirements. • Bankruptcy or foreclosure discharged the required 24 or 36 months. <p>Short Sales and Short Payoff / Restructured loans</p> <ul style="list-style-type: none"> • Regardless of DU or LP findings, the credit guidelines below for Short Sales or Short Payoff/Restructured loans must be met as automated underwriting systems may not detect the presence of these items. <table border="1" data-bbox="389 1186 1518 1680"> <thead> <tr> <th data-bbox="389 1186 584 1218">Lender Action</th> <th data-bbox="584 1186 917 1218">Definition</th> <th data-bbox="917 1186 1518 1218">Eligibility Requirements</th> </tr> </thead> <tbody> <tr> <td data-bbox="389 1218 584 1680">Short Sale, Short Payoff / Restructured Loans</td> <td data-bbox="584 1218 917 1680"> <p>Short Sales, the servicer agrees to accept a payoff less than the balance owed on the borrower's mortgage that is NOT delinquent.</p> <p>Short Payoff / Restructured Loans are mortgage loans in which the terms of the original transaction have been changed, resulting in either the absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan</p> </td> <td data-bbox="917 1218 1518 1680"> <p>Borrowers purchasing a home that is being sold under a short sale are eligible provided the transaction is arms length.</p> <p>Borrowers who have entered into a short refinance / restructured debt on the subject property are not eligible.</p> <p>Borrowers who have completed a short refinance or restructured loan and are purchasing or refinancing a property which is not the subject of the short refinance / restructured loan must have re-established credit for a minimum of four (4) years since completion of short refinance /restructure and no more than 1x30 days late on any mortgage in the past 12 months.</p> </td> </tr> </tbody> </table>	Lender Action	Definition	Eligibility Requirements	Short Sale, Short Payoff / Restructured Loans	<p>Short Sales, the servicer agrees to accept a payoff less than the balance owed on the borrower's mortgage that is NOT delinquent.</p> <p>Short Payoff / Restructured Loans are mortgage loans in which the terms of the original transaction have been changed, resulting in either the absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan</p>	<p>Borrowers purchasing a home that is being sold under a short sale are eligible provided the transaction is arms length.</p> <p>Borrowers who have entered into a short refinance / restructured debt on the subject property are not eligible.</p> <p>Borrowers who have completed a short refinance or restructured loan and are purchasing or refinancing a property which is not the subject of the short refinance / restructured loan must have re-established credit for a minimum of four (4) years since completion of short refinance /restructure and no more than 1x30 days late on any mortgage in the past 12 months.</p>
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CONSTRUCTION TO PERMANENT	<ul style="list-style-type: none"> • Construction-to-permanent financing involves the granting of a long-term mortgage to the veteran for the purpose of replacing interim financing that the veteran obtained in order to fund construction of the home. • To be considered a construction-to-permanent transaction, the following conditions must be met: <ul style="list-style-type: none"> • Borrower is the primary obligor on construction financing which was obtained through a legitimate financial institution AND • Borrower owns the lot on which the residence is constructed. • Treat as a refinance transaction under these circumstances. See Maximum/Minimum Loan Amount – • "Other" Refinancing Loans. 						

CONSTRUCTION TO PERMANENT <i>(continued)</i>	<ul style="list-style-type: none"> DMC does not offer the “Construction/Permanent” loan program described in Chapter 7 of the Lenders Handbook, which pays draws to a builder during construction. Non ARM length transactions are not allowed.
CREDIT SCORES	Credit Score Requirements <ul style="list-style-type: none"> Minimum 620 Decision Score (For loans locked prior to 12/21/09), regardless of AUS findings, including streamline refinance transactions. Minimum 640 (For loans locked on or after 12/21/09) If three scores are provided (one from each repository), the middle score will be used. <ul style="list-style-type: none"> If two scores are provided, the lower of the two scores are used. If one score is provided, a zero credit score will be used. For multiple borrowers, determine a decision score for each individual borrower, then use the lowest of the individual scores as the Decision Score for the loan. At least one borrower must have a decisioning credit report Non-traditional credit is not allowed. Jumbo requires 660 Decision Score.
DOCUMENTATION	<ul style="list-style-type: none"> As determined by DU/LP and the most current <u>VA Lenders Handbook</u>. A signed IRS Form 4506-T must be included in all loan files at the time of submission.
DOWN PAYMENT	<p>No down payment is required except in the following circumstances. <u>VA Lenders Handbook Ch 3 Sec 3-b</u>.</p> <ul style="list-style-type: none"> If the purchase price exceeds the reasonable value of the property, the borrower must pay the difference from his/her own resources. If this cash payment exceeds 5% of the purchase price, a reduced funding fee will apply as per the tables under <i>MORTGAGE INSURANCE</i>. If a veteran has less than full entitlement available, borrower’s down payment plus available entitlement plus equity must equal at least 25% of the purchase price or Notification of Value (NOV), whichever less, on purchases, new construction, and non-IRRRL refinances. The down payment may not be derived from a second mortgage on the property.
ESCROWS	<ul style="list-style-type: none"> Escrow waivers not allowed under any circumstances. No exceptions.
ESCROW HOLDBACKS	<p>Only eligible as an exception on a case by case basis with the following requirements:</p> <ul style="list-style-type: none"> 2X the bid amount Maximum \$3,500 2 Bids from 2 different companies. Escrow funds to be held by DMC. \$250 Fee paid to DMC at closing. FHA Compliance Inspection Report or Conventional 1004D required before funds will be released. Work must be completed within 7 days of funding. DMC to hold Broker check until the work has been completed.
GUARANTY	<ul style="list-style-type: none"> The VA guaranty plus cash down payment/equity must be equal to at least 25% of the purchase price or Notification of Value (NOV), whichever less, on purchases, new construction, and non-IRRRL refinances.
GEOGRAPHIC RESTRICTIONS	<ul style="list-style-type: none"> Properties may be located in the District of Columbia and any state. U.S. Territories not allowed (e.g. Puerto Rico, American Samoa, Guam, etc.) Jumbo not allowed in AK, HI, and Miami-Dade County FL.
GIFTS	<ul style="list-style-type: none"> Allowed. Required documentation same as FHA
INVESTMENT PROPERTIES	<ul style="list-style-type: none"> Eligible on IRRRL transactions only. The veteran or the spouse of an active service member must certify that he or she previously occupied the property as his or her home.
LOAN TERM	<ul style="list-style-type: none"> 15, 20, 25, and 30 years Jumbo 30 years only
MAXIMUM / MINIMUM LOAN AMOUNT	<ul style="list-style-type: none"> \$417,000 including any financed Funding Fee. The maximum is always equal to the current conforming loan limit. Minimum loan amount: \$50,000. All loans must be submitted in whole dollar amounts. <p>* The veteran’s available entitlement plus the veteran’s down payment and/or equity in the property must equal at least 25% of the purchase price or Notification of Value (NOV), whichever less, on purchases, new construction, and non-IRRRL refinances. IRRRL’s are not subject to this rule as VA will automatically issue a 25% guaranty on any eligible IRRRL transaction. Bonus entitlement may be used for base loan amounts greater than \$144,000.</p>

MAXIMUM / MINIMUM LOAN AMOUNT <i>(continued)</i>	<table border="1"> <thead> <tr> <th data-bbox="391 92 656 142">Transaction</th> <th data-bbox="656 92 1511 142">Maximum Loan Amount * * (provided veteran has sufficient entitlement / equity – see note above)</th> </tr> </thead> <tbody> <tr> <td data-bbox="391 142 656 321"> Purchase </td> <td data-bbox="656 142 1511 321"> <ul style="list-style-type: none"> • 100% of the lesser of the sales price or VA Reasonable Value/Notification of Value • Plus the cost of eligible energy efficient improvements • Plus VA Funding Fee • Total may not exceed the maximum loan amount permitted for this product </td> </tr> <tr> <td data-bbox="391 321 656 527"> IRRRL (Interest Rate Reduction Refinancing Loan) </td> <td data-bbox="656 321 1511 527"> <ul style="list-style-type: none"> • Existing VA loan balance • Plus the cost of eligible energy efficient improvements • Plus allowable fees and charges • Plus up to 2 actual discount Points • Plus VA Funding Fee • Total may not exceed the maximum loan amount permitted for this product </td> </tr> <tr> <td data-bbox="391 527 656 1056"> Regular or “Cash-Out” Refinance (called “cash-out” by VA even if the borrower receives no cash) </td> <td data-bbox="656 527 1511 1056"> <p>The calculation below may be used provided that equity + available entitlement equals at least 25% of the VA Reasonable Value (NOV). Equity is the positive difference between the NOV and the new base loan amount. Entitlement is limited to \$36,000 on a Regular Refinance loan. Bonus entitlement may <i>not</i> be used.</p> <p>The home must be encumbered by a lien. 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“Other” Refinancing Loans Loans that refinance: <ul style="list-style-type: none"> - a construction loan - an installment land sales contract - a loan assumed by the veteran at a rate higher than the proposed refinance 	<p>The lesser of:</p> <ul style="list-style-type: none"> • The VA Reasonable Value, or <p><i>The sum of:</i></p> <ul style="list-style-type: none"> • The outstanding balance of the loan (for construction loans, includes the balances of construction financing and lot liens, if any) • Plus allowable closing costs and discounts • Plus the cost of eligible energy efficient improvements • Plus VA Funding Fee 																						
MAXIMUM / MINIMUM LTV	<ul style="list-style-type: none"> • 100% LTV/CLTV on purchase transactions & IRRRL. • 90% LTV/CLTV on Regular or “Cash-Out” refinance transactions. • The VA Funding Fee may be added to the base loan amount; however, the total loan amount may not exceed the maximum loan amount permitted for this product. See <i>MAXIMUM / MINIMUM LOAN AMOUNT</i>. • The maximum VA loan amount may be limited by the amount of remaining eligibility/entitlement. Refer to the VA guidelines – VA pamphlet 26-7. • Existing subordinate financing may remain in place without regard to CLTV only on IRRRL transactions of 1-unit properties. All other refinance transactions, CLTV cannot exceed the maximum allowable LTV for the transaction. No new subordinate financing is allowed on any refinance transaction. 																						
MORTGAGE INSURANCE / VA FUNDING FEE	<ul style="list-style-type: none"> • The VA Funding Fee is a one-time, up-front charge applied as a percentage to the “Base Loan Amount”. • The Funding Fee may be paid in cash or financed, or a combination of the two, provided the entire loan amount including any financed Funding Fee does not exceed \$417,000. • The fee is fully earned by VA upon loan closing and is not available as a pro-rated refund to the veteran, even if the veteran refinances to another VA loan at a later date. • Veterans who are not exempt from the funding fee must be charged the appropriate funding fee based on the tables below according to the type of loan. • VA Form 26-8937, Verification of VA Benefits is required for any veteran who is exempt from the funding fee. See <i>FORMS and DISCLOSURES</i>. • See the following charts: 																						

MORTGAGE INSURANCE / VA FUNDING FEE
(continued)

Purchase and Construction Loans

Type of Veteran	Down Payment	Percentage for First Time Use	Percentage for Subsequent Use
Regular Military	0% - 4.99%	2.15%	3.30% ¹
	5% - 9.99%	1.50%	1.50%
	10% or more	1.25%	1.25%
Reserves/ National Guard	0% - 4.99%	2.40%	3.30% ¹
	5% - 9.99%	1.75%	1.75%
	10% or more	1.50%	1.50%

Regular Refinance (Rate/Term or Cash-Out) Loans **

** All VA refinance loans are considered “cash-out” except IRRRLs and loans to payoff (1) construction loans, (2) installment land contracts, and (3) loans assumed by veterans at interest rates higher than the proposed refinance. All other VA refinance loans are considered “cash-out” **whether or not the veteran actually receives cash.**

Type of Veteran	Percentage for First Time Use	Percentage for Subsequent Use
Regular Military	2.15%	3.3% ¹
Reserves/National Guard	2.4%	3.3% ¹

- The higher subsequent use fee does not apply if the veteran's only prior use of entitlement was for a manufactured home loan.

IRRRL'S

Type of Loan	Percentage for Either Type of Veteran Whether First Time or Subsequent Use
Interest Rate Reduction Refinancing Loans	.50%

NON-OCCUPANT CO-BORROWER

- Not allowed

NUMBER OF LOANS/ PROPERTIES

- There is not a limit to the number of properties, including the subject property. This limitation includes joint or total ownership, and is cumulative across all borrower(s) on the loan.

OCCUPANCY

- Owner occupied primary residence only. Listed below are acceptable scenarios for meeting owner occupancy status:
 - The spouse may certify occupancy if the veteran is on active duty.
 - Single or married service members deployed from their permanent duty station are considered to be in a temporary duty status and are able to certify intent to occupy. There is no need to have a spouse certify occupancy.
 - IRRRL transactions require certification of current or prior occupancy.

PROGRAMS & SPECIAL FEATURES

Energy Efficient Mortgage (EEM) Program

VA allows up to \$6,000 to be added to the loan amount to cover the cost of energy efficiency improvements made in conjunction with a VA purchase or refinance loan on an owner-occupied “existing” property. Ch 7, Sec 3, VA Lenders Handbook.

- Limited to owner-occupied “existing” properties only (no new construction or non-owner occupied IRRRLs).
- DMC will only accept EEMs on 30-year fixed term.
- The Mortgage may be increased by
 - Up to \$3,000 based on documented cost of the energy improvements.
 - Up to \$6,000 based on documented cost, provided the monthly PITI increase does not exceed the estimated monthly utility savings.
 - The increase may not include the cost of any labor performed by the Veteran.
- Acceptable energy efficiency improvements include but are not limited to:
 - Solar heating and cooling systems, including water heating
 - Caulking and weather-stripping
 - Storm or thermal windows and/or doors
 - Heat pumps
 - Vapor barriers

EEM with an IRRRL

- The Veteran may receive up to \$6,000 to reimburse the cost of EEM improvements completed within the 90 days immediately preceding loan closing.

<p>PROGRAMS & SPECIAL FEATURES (continued)</p>	<ul style="list-style-type: none"> If the EEM improvements cause the Veteran's PITI to increase 20% or more, Lender must determine and certify that the Veteran qualifies for the higher payment. <p>File Documentation</p> <ul style="list-style-type: none"> Loan increased up to \$3,000: <ul style="list-style-type: none"> Documentation of the itemized cost of energy improvements. Veteran may not be reimbursed for his or her own labor. Loan increased \$3,001 up to \$6,000: <ul style="list-style-type: none"> Energy Savings Estimate performed by a qualified source, such as a utility company; city, county or state energy authority; or a licensed heating/cooling professional. Lender's determination that the monthly PITI increase does not exceed the estimated monthly utility savings. IRRRL: if the PITI increases 20% or more: <ul style="list-style-type: none"> Lender's certification that Veteran qualifies for the higher payment. <p>Entitlement, Guaranty and Funding Fee VA will issue guaranty on the entire loan amount but the Veteran's entitlement will only be charged for the 25% guaranty on the loan amount before adding the amount for energy improvements.</p> <table border="1" data-bbox="464 590 1446 722"> <tr> <td>Required Entitlement</td> <td>25% of the loan amount before adding the EEM portion.</td> </tr> <tr> <td>Guaranty</td> <td>25% of the entire loan amount including the EEM portion.</td> </tr> <tr> <td>Funding Fee</td> <td>Applicable percent (see chart) applied to the entire loan amount including the EEM portion</td> </tr> </table>	Required Entitlement	25% of the loan amount before adding the EEM portion.	Guaranty	25% of the entire loan amount including the EEM portion.	Funding Fee	Applicable percent (see chart) applied to the entire loan amount including the EEM portion
Required Entitlement	25% of the loan amount before adding the EEM portion.						
Guaranty	25% of the entire loan amount including the EEM portion.						
Funding Fee	Applicable percent (see chart) applied to the entire loan amount including the EEM portion						
<p>PROPERTY ELIGIBILITY</p>	<p>Eligible</p> <ul style="list-style-type: none"> Refer to VA Guidelines 1-4 unit attached or detached primary residence including condos and PUDs. Condos must be VA approved. The nationwide list of VA approved condominiums is located at http://condopudbuilder.vba.va.gov/2.2/frames.html. HUD or VA Repo properties – See the "Appraisal Standards & Guidelines" chapter of this manual for additional information. Modular homes. Log Homes. <ul style="list-style-type: none"> Home was built to state/local building codes. Property conforms to all zoning requirements and International Code Council (ICC) building codes. Appraiser to comment on: Local demand, marketability of the property, supply of factory built homes and their appeal in the market. Marketing time must not exceed 6 months. Appraiser must also comment on the sufficiency of the unit's living area, interior room size, storage, adequacy of roof pitch, overhangs and exterior finish. All comparables must be log homes. 						
<p>PROPERTY ELIGIBILITY (CONTINUED)</p>	<p>Ineligible</p> <ul style="list-style-type: none"> Any property where the seller is not the owner of record. Properties which are not primarily residential in nature and use. A property currently listed for sale or for sale within the last 6 months preceding initial loan application is generally not eligible for a refinance transaction. All non-owner occupied properties except IRRRLs meeting the previous occupancy requirement. Any property type not listed as eligible, including but not necessarily limited to: <ul style="list-style-type: none"> Manufactured or mobile housing. Modular homes. Leasehold condos are not eligible. Other Leaseholds require evidence of VA approval. Geodesic dome, Log, Earth or Geothermal homes. Properties without a permanent source of heat and if typical for the area, cooling. Space heaters and similar sources are not considered permanent heating sources. Co-ops. Ranches, orchards, working or hobby farms. A property with a permanently installed non-electric, non-vented fireplace or space heater is not eligible unless the following Notice of Value conditions are met: <ul style="list-style-type: none"> Veteran's written acknowledgement that the dwelling contains a non-vented fireplace or space heater which has not been inspected by VA, and Certification from a heating /air conditioning contractor identifying the property and verifying that the unit was installed according to local building authority requirements, or according to the manufacturer's recommendations if there are no local requirements, and is equipped with an approved Oxygen Depletion Sensor. 						
<p>RATIOS</p>	<ul style="list-style-type: none"> The qualifying debt-to-income ratio is 41% or as approved by DU/LP. Maximum DTI is 55% (For loans locked prior to 12/21/09). Maximum DTI is 50% (For loans locked on or after 12/21/09). 						

**REFINANCE
TRANSACTIONS**

Regular Refinance (Rate/Term or Cash-Out) Transactions:

- A VA cash-out refinance may be used to pay off any type of lien(s) against the secured property. The liens to be paid off may be current or delinquent and may be from any source (for example, VA, FHA, or conventional mortgages and/or tax judgments/liens). VA does not allow a cash-out refinance on property owned free and clear, there must be a lien to payoff. VA considers all refinance transactions (excluding IRRRLs) to be cash-out even if the veteran receives no cash back.
- Allowed
- Requires credit and appraisal underwriting.
- Owner-occupied primary residence only.
- Cash-out to the borrower is not allowed in the state of Texas
- Maximum LTV is 90% of the value of the property (except in Texas) as indicated on the Certificate of Reasonable Value /Notice of Value, plus the cost of any energy-efficient improvements (less than or equal to \$6,000) plus the VA funding fee.
- If paid from loan proceeds, the total of the following items cannot exceed 90% of reasonable value:
 - Payoff of liens
 - Fees and charges, other than VA funding fee
 - Actual discount points
 - Cash to the veteran
- There is no seasoning requirement, if purchased within one year, maximum mortgage still based on current value.

Interest Rate Reduction Refinance Loan (IRRRL)

- Must meet minimum credit score requirements (see Credit Scores).
- A conventional appraisal is required on all IRRRL transactions (full 1004 or 2055 exterior-only appraisal) (see Appraisal).
- Current VA loan must be VA guaranteed.
- No credit qualifying, unless PITI payment increasing by more than 20%.
- Maximum term is lesser of 30 years or not more than original term plus 10 years.
- 12-month mortgage history reported from all 3 repositories submitted with the file.
- IRRRL's must be current and the previous payment history can not contain a 30-day late or greater payment in the most recent 12 months. The following documentation is required:
 - Evidence the existing loan is current.
 - If the loan is seasoned 12 months or more, evidence of no 30-day late payments in the most recent 12 months.
 - Loans seasoned less than 12 months on a primary residence may be considered for approval on a limited basis at the discretion of the Regional Underwriting Manager, subject to review of the following documentation and requirements:
 - Full tri-merge in-file credit report.
 - Evidence the existing loan has no 30-day late payments since the inception of the loan, and
 - Evidence of no 30-day late payments in the most recent 12 months on any mortgage account for any property where any borrower has an ownership interest.
 - Bankruptcy or foreclosure discharged the required 24 or 36 months.
- In lieu of a Certificate of Eligibility (COE), eligibility for an IRRRL is determined by a Prior Loan Validation (PLV) showing an active loan matching the borrower and property. If the PLV shows more than one active loan, an Application for Restoration must be processed. Please see the VA Website for full details.
- Full credit reports are required.
- Must be same applicant(s) unless death or divorce of an applicant. Cannot remove currently separated spouse.
- Only person eligible to be added to loan is new spouse (provide evidence).
- If veteran is deceased, spouse on original loan is eligible for IRRRL
- Incidental cash back at closing cannot exceed \$100.
- Second home or investment properties are eligible provided the veteran signs a letter verifying the property had previously been their primary residence.
- The P&I payment on an IRRRL must be less than the P&I payment on the loan being refinanced unless one of the following exceptions applies:
 - The IRRRL is refinancing an ARM to a fixed rate, or
 - Term of the IRRRL is shorter than the term of the loan being refinanced, or
 - Energy efficiency improvements are included in the IRRRL.
 - The total number of months to recoup ALL closing costs (both paid outside of closing and those financed into the loan) should not exceed 84 months, supported by completion of the Rate Reduction Certification form to be signed by the borrower(s). Prepaid interest and escrows are not included in the number of months to recoup.

REFINANCE TRANSACTIONS – BENEFIT TO BORROWER	<ul style="list-style-type: none"> • Direct Mortgage will exercise sound judgment and due diligence in the underwriting of loans to be insured by VA. In order to comply with VA's directive, refinance transactions should "make sense" and be in the borrower's best interest. • DMC requires that, unless the new loan is refinancing ARM-to-fixed, reducing the term, or providing a cash-out benefit to the borrower, then VA refinance transactions should generally meet at least 2 of the following criteria: <ul style="list-style-type: none"> • Borrower's payment reduced by at least 10% or \$50, whichever is less • Borrower's interest rate reduced at least 1% • Closing costs (not including prepaids) recaptured through the monthly PITI savings in 5 years or less • In states with predatory lending laws, the state-specific refinance or "Tangible Net Benefit" worksheet will supersede these guidelines.
SELLER CONTRIBUTION	<p>Maximum seller contribution is 6% of value as indicated on the Notice of Value.</p> <ul style="list-style-type: none"> • Seller concessions may include payment by the seller of the borrower's VA Funding Fee, prepaid taxes and insurance, closing costs, and actual discount points paid to provide permanent interest rate buy downs, etc
SUBORDINATE FINANCING	<p>General Guidelines:</p> <ul style="list-style-type: none"> • Secondary financing 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. In addition, the following requirements must be met: <ul style="list-style-type: none"> • Simultaneous - Secondary financing must be obtained simultaneously with the VA guaranteed first mortgage, both secured by the same property. • Documentation - The broker must submit documentation disclosing the source, amount, and repayment terms of the second and agreement to such terms by the veteran and any co-obligors. • Lien Position - The second must be subordinated to the VA-guaranteed first loan. • Allowable Purposes - The proceeds of the second may be for items such as, but not limited to: <ul style="list-style-type: none"> • Closing costs • A down payment if applicable. • Housing assistance programs (HAPs) meeting the requirements of VA Circular 26-08-14 are acceptable. <ul style="list-style-type: none"> • The assistance may be in the form of outright grants with no repayment provisions or soft second mortgages that may be forgiven when the buyer meets a specified occupancy requirement. • Repayable second liens must be fully amortized with a monthly payment. No balloons, interest-only, neg-am etc. Must not contain a prepayment penalty or any unusual repayment or foreclosure terms. • Secondary financing may not be used to cover any portion of a down payment required by VA to cover the excess of the purchase price over the VA's reasonable value. • Cash Back - There can be no cash back to the veteran from the VA first or second obtained simultaneously. • Underwriting - The veteran must qualify for the second which is underwritten as an additional recurring monthly obligation. • Interest Rate - The interest rate on the second may exceed the rate on the VA-guaranteed first; however, it may not exceed industry standards for second mortgages. • Assumability - The second must be assumable by creditworthy purchasers. • Grace Period - There should be a reasonable grace period before: <ul style="list-style-type: none"> • A late charge comes due, or • Commencement of foreclosure in the event of default. • Grace Period - There should be a reasonable grace period before: <ul style="list-style-type: none"> • A late charge comes due, or • Commencement of foreclosure in the event of default. <p>New Subordinate Financing With A Purchase</p> <ul style="list-style-type: none"> • The funding fee is charged only on the first lien and must be financed in the VA loan or paid in cash by the seller or with borrower funds not derived from the second mortgage (because this would place the borrower in a worse position due to a higher interest rate on the second mortgage). <p>Existing Subordinate Financing</p> <ul style="list-style-type: none"> • Existing subordinate financing may remain in place without regard to CLTV only on IRRRL transactions of 1-unit properties. All other refinance transactions, CLTV cannot exceed the maximum allowable LTV for the transaction. No new subordinate financing is allowed on any refinance transaction.
UNDERWRITING	<ul style="list-style-type: none"> • Provide a clear CAIVRS # on each applicant. An applicant cannot be considered a satisfactory credit risk if he or she is presently delinquent or in default on any debt to the Federal Government until the delinquent account has been brought current or satisfactory arrangements have been made between the applicant and the Federal agency. • An applicant cannot be considered a satisfactory credit risk if he or she has a judgment lien against his or her property for a debt owed to the Government until the judgment is paid or otherwise satisfied. • Effective for loans purchased September 1, 2008 and forward ALL loan files excluding VA IRRRL's must include an IRS Form 4506T executed by each borrower at the time of closing. • Additionally, all loans submitted to DMC for prior-approval underwriting must contain a 4506T in the loan submission package regardless if a 4506T has all ready been processed and tax transcripts are included in the loan file.

UNDERWRITING
(CONTINUED)

- If the property is located in a community property state, VA requires consideration of the spouse's credit information (whether or not the spouse will be personally liable on the note and whether or not the applicant and spouse choose to have the spouse's income considered). Community property states include Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin.

Automated Underwriting System (AUS)

AUS Acceptability

- Loans underwritten through DU/LP that receive an Approve Eligible result are allowed.
- Minimum 620 credit score, regardless of AUS findings.

Income Documentation

- All VA loans except IRRRLs are Full/Alt documentation loans. Verify and treat the income of a co-veteran spouse the same as the veteran's income.
- Only verified income can be considered in total effective income. The income calculation and analysis performed to determine the veteran's income must be documented in the file. VA Form 26-6393 is used to analyze the veteran's income, debts, and creditworthiness.
- **Military Income Sources and Documentation:**
 - **Active Military Verification Analysis:**
 - An original military Leave and Earning Statement (LES) dated no more than 120 days prior to the Note is required in place of a VOE. Determine if the service member is within 12 months of release from active duty or end of the contract term. If the date is within 12 months of the anticipated loan closing date, obtain any of the following:
 - Documentation that the service member has already re-enlisted or extended his/her period of active duty to a date beyond the 12 month period following the projected closing of the loan, or
 - Verification of a valid offer of local civilian employment following the release from active duty. All data pertinent to sound underwriting procedures (date employment will begin, earnings, and so on) must be included, or
 - A statement from the service member he/she intends to re-enlist or extend the period of active duty to a date beyond the 12-month period plus:
 - A statement from the service member's commanding officer confirming the service member is eligible to re-enlist or extend his/her active duty, and.

Job Stability

- Current employment must be equal to or greater than 90 days.
- Cumulative gap in employment must be no more than 60 days during the past 2 years - for more than 2 jobs - and 90 days gap will be allowed if there have only been 2 employers in 2 years.
- Only 4 total jobs are allowed during the past 2 years, without an exception request approved.

Income Documentation: (Continued)

That the commanding officer has no reason to believe that the re-enlistment or extension of active duty will not be granted, or

- Documentation of strong mitigating factors such as:
 - A down payment of at least 10%,
 - Significant cash reserves, and
 - Clear evidence of strong ties to the community coupled with a nonmilitary spouse's income high enough that only minimal income from the active duty service member is needed to qualify.
- **Subsistence and Clothing Allowances Verification Analysis:**
 - Verified allowances may be included as effective non-taxable income (Tax-free income may be "grossed up" only for calculating the debt-to-income ratio, not residual income. Do not add non-taxable income to taxable income before "grossing up."). Subsistence (rations) and clothing allowances are indicated on the LES.
- **Military Quarters Allowance Verification Analysis:**
 - Military quarters allowance may be included as effective nontaxable income if properly verified. In most areas there will be an additional variable housing allowance that can also be included. Verification of Military Quarters Allowance income may be obtained from the borrower's paystub, or on Military.com under Benefits on the Basic Allowance for Housing (BAH) Rate Tables (amount must be verified based on geographic duty, location, pay grade, and dependency status), or on the Department of Defense website.
- **Other Military Allowances Verification Analysis:**
 - To consider a military allowance in the underwriting analysis, obtain verification of the type and amount of the military allowance and how long the veteran has received it. These types of pay are subject to periodic review and/or testing of the recipient to determine eligibility. These allowances are considered taxable income. These allowances may be included in effective income only if it is expected to continue because of the nature of the veteran's assigned duties; for example, flight pay for a verified pilot. Examples include flight or hazard pay, overseas pay, and combat pay.
- **Voluntary Separation Payments Verification Analysis:**
 - Special Separation Benefit (SSB):

UNDERWRITING
(CONTINUED)

- A one-time lump sum.
- Taxable in the year received.
- Treat as any substantial cash reserve.
- Voluntary Separation Incentive (VSI):
 - Annual payments.
 - Include in effective income.
 - Taxable in the year received.
 - Payment period is calculated by multiplying the veteran's years of service time two.
 - Available only to veteran's with six or more years of service (equating to a minimum of 12 years annual payments).
- **Reserves or National Guard Income**
 - Income from service in the Reserves or National Guard may be included in effective income if the length of the veteran's total active and Reserve/Guard service indicates a strong probability that the Reserve Guard income will continue. Otherwise, this income may be used to offset obligations that have 10 to 24 months duration.
- **Recently Activated Reserve or National Guard**
 - Every veteran whose income is being used to qualify for a loan must be asked if their income is subject to change due to participation in a Reserves/National Guard unit due to activation. If the resulting impact of unit activation on the reservists income will be:
 - Reduced: Carefully evaluate the impact the reduction may have on the veteran's ability to repay the loan.
 - Increased: Consider the likelihood the income will continue beyond a 12-month period.
 - Carefully and thoroughly document, including reasons for using/not using reserve/guard income, these situations on the Form 1008, Underwriting Transmittal Summary, or on a separate memorandum to the file.

Conversion of Principal Residence to Investment Property

Underwriting analysis on VA Loans may not consider rental income from the property vacated except under circumstances described below. Rental income on the property vacated reduced by the appropriate VA vacancy factor may be used under the following circumstances:

- Relocations: The homebuyer is relocating with a new employer, or is transferred by the current employer to an area not within a reasonable and locally recognized commuting distance. A properly executed lease agreement of at least one year's duration is required from the date the loan closes, along with the receipt of a security deposit from the tenant and proof of deposit into the borrowers account.

Conversion of Principal Residence to Investment Property: (Continued)

- Sufficient Equity in Vacated Property: The homebuyer has a loan-to-value ratio of 75% or less, as determined by either a current (less than six months old) residential appraisal or by comparing the unpaid principal balance to the original sales price of the property. The appraisal, in addition to using forms Fannie Mae 1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae 1075/Freddie Mac 466. The above applies solely to the conversion of a primary residence to an investment property is not applicable to existing rental properties disclosed and confirmed by tax returns (Schedule E of form IRS 1040).
- If the borrower is upside down in their current property they may not purchase a new primary residence.

Policy Regarding departure residences when they are mobile homes

- Whether the borrower owns the land or pays lot rent, rental income may never be considered when the departure residence is a mobile home.
- If the borrower is moving out of a mobile home and owns the land, an appraisal or AVM must be provided to verify that they are not upside down in value and mortgage.
- If the borrower is moving out of a mobile home and pays lot rent, no appraisal or AVM is required. However, we must verify the amount of lot rent and hold it against them as a net rental loss.

Debts paid off at (or prior to) closing:

- Revolving and installment debt paid off prior to the date of the loan application and credit report does not need to be included in the debt to income ratios. However, funds used to pay these items may need to be sourced and seasoned. Here is our policy regarding debts paid after the date of the loan application:
 - a) Purchase & Rate/Term Loans:
 - i) Revolving debts may not be paid off or paid down in order to qualify.
 - ii) Installment loans may not be paid down in order to qualify. Installment loans may be paid off in order to qualify. A borrower may not use gifts funds to pay off an installment loan in order to qualify.
 - b) Cash-out Loans:
 - i) Revolving debts may be paid off in order to qualify, as long as they are paid through closing using loan proceeds.

UNDERWRITING
(CONTINUED)

ii) Installment loans may not be paid down in order to qualify. Installment loans may be paid off in order to qualify. They may be paid off with borrower funds or loan proceeds. A borrower may not use gift funds to pay off an installment loan in order to qualify.

Debts paid off at (or prior to) closing:

- Revolving and installment debt paid off prior to the date of the loan application and credit report does not need to be included in the debt to income ratios. However, funds used to pay these items may need to be sourced and seasoned. Here is our policy regarding debts paid after the date of the loan application:
 - a) Purchase & Rate/Term Loans:
 - i) Revolving debts may not be paid off or paid down in order to qualify.
 - ii) Installment loans may not be paid down in order to qualify. Installment loans may be paid off in order to qualify. A borrower may not use gifts funds to pay off an installment loan in order to qualify.
 - b) Cash-out Loans:
 - iii) Revolving debts may be paid off in order to qualify, as long as they are paid through closing using loan proceeds.
 - iv) Installment loans may not be paid down in order to qualify. Installment loans may be paid off in order to qualify. They may be paid off with borrower funds or loan proceeds. A borrower may not use gift funds to pay off an installment loan in order to qualify.

Self Employed Documentation Requirements

- Self employed borrowers will need to provide tax returns on April 16, 2010. January 1, 2010 through April 15, 2010, financial statements (profit/loss & balance sheet) along with Oct – Dec 2009 business bank statements will be required.

Non-Arms Length and Identity-of-Interest

- Non-Arms Length and Identity-of-Interest transactions are NOT allowed when the occupancy type is second Home or Investment.
- Non-Arms Length and Identity-of-Interest transactions are NOT allowed when the seller has entered into a short sell agreement with the existing lien holder or when a bank is the seller and the buyer is related to the previous owner.
- Non-Arms Length and Identity-of-Interest transactions ARE allowed – on a case by case basis for primary homes. DMC does not allow “bailouts.”

Properties Previously Listed for Sale

- DMC allows financing on properties recently listed for sale. However, the subject property listing must be removed, withdrawn or cancelled at least 1 day prior to the date of the loan application.
- Cash-out loans are limited to 70% LTV until the subject property listing has been removed, withdrawn or cancelled for a period of 6 months prior to the date of the loan application.
- Rate/term refinance loans are limited to 90% LTV until the subject property listing has been removed, withdrawn or cancelled for a period of 6 months prior to the date of the loan application

VA Allowable Fees

General

- VA regulations provide the list of fees and charges that the veteran is allowed to pay.
- The veteran may pay reasonable and customary amounts for permissible charges as designated by VA, plus a 1% flat charge by the lender and actual discount points.
- The seller, lender, or any other party may pay fees and charges, including actual discount points, on behalf of the borrower. VA regulations limit charges paid by the borrower; they do not limit the payment of fees and changes by other parties.

Itemized Acceptable Fees and Charges

The table below shows fees and charges that the veteran may pay in addition to the one percent (1%) flat charge

Reference: See "Lender's 1% Origination Fee" presented in this topic for additional information.

Charges	Description
Appraisal	<ul style="list-style-type: none"> The VA appraiser's fee A second (2nd) appraisal only IF it is the veteran who is requesting reconsideration of value. The following applies to other requests for second appraisals: <ul style="list-style-type: none"> the veteran cannot pay for an appraisal when it is the lender or seller who is requesting the reconsideration of value, and The veteran cannot pay for appraisals requested by parties other than the veteran or lender.
Compliance Inspections	<ul style="list-style-type: none"> A VA compliance inspector's fee or the VA appraiser's fee.
Recording Fees	The recording fees, recording taxes or other charges incident to recordation.
Credit Report	<p>The credit report obtained by the lender.</p> <p>Note: For Automated Underwriting cases, the veteran may pay the evaluation fee of \$50 in lieu of the charge for a credit report. For "Refer" cases, the veteran may also pay the charge for a merged credit report, if required.</p>
Actual discount points	Actual discount points
Prepaid Items	The portion of taxes, assessments and similar items for the current year and the initial deposit for the tax and insurance account.
Hazard Insurance	<ul style="list-style-type: none"> The required hazard insurance premium. A flood insurance premium, if applicable.
Flood Zone Determination	<ul style="list-style-type: none"> The actual amount charged for a flood certification: <ul style="list-style-type: none"> Only if made by a third (3rd) party who guarantees the accuracy of the determination. The life of the loan flood determination service purchased at the time of loan origination. <p>Note: A fee may not be charged for a flood zone determination made by a lender or an appraiser.</p>
MERS Registration Fee	<ul style="list-style-type: none"> A one-time fee, actual basic charge is considered reasonable and customary. Must be disclosed on the Good Faith Estimate and the HUD-1.
Survey	<ul style="list-style-type: none"> A survey, if required by the lender or veteran. Any charge for a survey on a condominium must have the prior approval of VA.
Title Examination and Title Insurance	<ul style="list-style-type: none"> The title examination and title insurance. An environmental protection lien endorsement to a title policy, if needed.
Special Mailing fees for Refinancing Loans	For Refinance transactions only: Charges for Federal Express, Express Mail or similar services if the saved per diem interest cost to the veteran will exceed the cost of special handling.
VA Funding Fee	Unless exempt from the fee as evidenced by a <i>Verification of VA Benefit Related Indebtedness</i> (VA Form 26-8937).
Other fees authorized by VA	<ul style="list-style-type: none"> Additional fees attributable to local variances may be charged to the veteran only if specifically authorized by VA. Approval of such fee may be requested if it meets the following: <ul style="list-style-type: none"> Normally paid by the borrower in a particular jurisdiction, and considered reasonable and customary in the jurisdiction.
Attorney's fees	<ul style="list-style-type: none"> The veteran can independently retain an attorney and pay a fee for legal services in connection with the purchase of a home. Closing documents must clearly indicate that the attorney's fee is not being charged by the lender, but is being paid by the veteran as part of an independent arrangement with an attorney.