



MICHIGAN MUTUAL, INC.

YOUR HOME LOAN PARTNER

VA
Underwriting
Guidelines

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MICHIGAN MUTUAL UNDERWRITING PHILOSOPHY

Michigan Mutual underwrites and purchases all types of residential mortgages. These programs and products can be found in our Product Matrices (located on our website), and on our daily rate sheet. The Product Matrices will reference specific product features and requirements (such as maximum Loan-to-Value ratios and minimum credit score requirements, if any). This guide is intended to address unique underwriting situations.

Michigan Mutual uses Automated Underwriting Systems (AUS). Generally, underwriters validate to the conditions set forth by the AUS. However, there are circumstances where underwriters will need to add conditions to the loan. These guidelines are meant to serve as a guide for obtaining adequate documentation to enable us to satisfy those conditions.

Michigan Mutual underwrites a borrower's creditworthiness based solely on information that we believe is indicative of the applicant's willingness and ability to pay the debt they would be incurring. We prudently underwrite to the standards and guidelines of the US Department of Veterans Affairs (VA). Due to a multitude of factors involved in a loan transaction, no set of guidelines can contemplate every potential situation. Therefore, each case is weighed individually on its own merits. Michigan Mutual's underwriting philosophy is to weigh all risk factors inherent in the loan file, giving consideration to the individual transaction, borrower profile, the level of documentation provided, and the property used to collateralize the debt.

Our commitment to fairness and equal opportunity is clear and unequivocal. The application of fair and consistent underwriting practices is mandated in the underwriting guidelines outlined in this guide. All loans considered for denial will be subject to a second level review prior to a final decision.

As our guidelines and processes are impacted by external market conditions, it will be necessary for us to reevaluate the guidelines in this manual from time to time. Occasionally, revisions will be made. As applicable, corporate written notifications and updates will be provided you and incorporated into these guidelines.

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Program Description

The Veterans Administration (VA) was established in 1930 when Congress authorized the President to “consolidate and coordinate government activities affecting war Veterans”. The Servicemen’s Readjustment Act of 1944 (known as “the G.I. Bill”) authorized the VA to administer a variety of benefit programs, including a home loan guaranty program, to facilitate the adjustment of returning Veterans to civilian life. The Department of Veterans Affairs (VA) was established as a Cabinet-level position on March 15, 1989. The VA loan guaranty program encourages lenders to offer long-term, low-down payment mortgages by protecting lenders against loss. Like many other benefits, VA loans have requirements the recruit must fulfill before they can be considered eligible to apply.

Note: The underwriting information contained in this section is intended for use in conjunction with VA Guidelines. Unless otherwise stated, all VA loans must conform to applicable VA one-to-four family housing requirements as well as federal, state and local law compliance. All loans must be guaranteed by VA and eligible for inclusion in pools of mortgage-backed securities fully guaranteed by the Government National Mortgage Association (Ginnie Mae). Michigan Mutual reserves the right to deny any loan which does not meet these guidelines/requirements. To the extent that any conflicts exist between the provisions set forth in the VA guidelines and Michigan Mutual’s guidelines, then Michigan Mutual guideline’s described by will prevail.

All loans must be prudently underwritten by MMI and be of sound investment quality. Loans having serious credit and/or property deficiencies may be denied at the option of Michigan Mutual.

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Broker Approval

Each broker (referred to as “Agent” by VA) must contact the VA office with jurisdiction over its home office to obtain a VA lender ID number if it does not already have one. This number is used as the agent’s identifier in all VA lending transactions. In addition you must be approved with MMI to submit VA loans.

The following is required documentation the Broker must provide to MMI in order for MMI to submit VA to recognize the broker as Agent for MMI:

- Copy of Veteran’s Administration approval of Agent reflecting VA Lender ID number.
- List of geographic areas (states) in which the agent will be originating VA loans (must be licensed in states).
- Main Contact of Agent – name, address and phone number (should be someone at agent’s main office).
- Corporate Check in the amount of \$100 made payable to the Department of Veterans Affairs.

Required Forms

Origination Forms

Loan cannot be underwritten without these forms. These forms are required in addition to the normal required forms/disclosures such as the Loan Application, HUD/VA Addendum to the Loan Application, Good Faith Estimate, Borrower Cert/Auth, etc.

Loan Analysis Worksheet – VA 26-6393

Used by underwriter to analyze applicant’s income, expenses and creditworthiness, and indicate the credit decision.

Verification of VA Benefit-Related Indebtedness – VA 26-8937

Required on all loans. Broker submits the form to VA to identify any VA benefit-related indebtedness that the applicant may owe to VA. It is also used to verify a Veteran’s exemption from the VA funding fee due to service-connected disability. These requests may be faxed to the VA Regional Loan Center. Allow up to 5 business days for processing (usually returned within 1 business day).

Request for Determination of Reasonable Value – VA 26-1805

Used to order appraisals for the purchase of VA REO transactions. Form must be completed and submitted to VA (see [Appraisal](#) section). Most appraisals are ordered through VA’s webLGY.

Counseling Checklist for Military Homebuyers – VA 26-0592

Active duty military borrowers and their lenders must sign this form to certify that the borrower has received counseling on homeownership and the loan obligation.

Compliance Inspection Report – VA 26-1839

Used by the VA Appraiser to report property inspection results as required by the VA Notice of Value (NOV).

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Request for Certificate of Eligibility – VA 26-1880

Veteran's application for a Certificate of Eligibility (CoE) and/or Restoration of Entitlement. The Veteran must submit proof of military service (DD-214) or any existing CoE with the application.

Request for Certificate of Eligibility Unmarried Surviving Spouse – VA 26-1817

Application for VA Eligibility used by an un-remarried surviving spouse of a deceased Veteran (that died as a result of a service or service-connected causes).

Federal Collection Policy Notice – VA 26-0503

Veteran-borrower signs the form as acknowledgment of the actions the Federal Government may take in the event of loan default. All loan submissions must include this form.

Debt Questionnaire – VA 26-0551

Veteran-borrower completes and signs the form to provide information on prior VA loans and potential indebtedness to the Federal Government. All loan submissions must include must include this form.

Reservist/National Guard Certification

Reservist/National Guard borrowers must complete and execute this certification. All loan submissions of Reservist National Guard borrowers must include this certification.

VA 3-Year or 5-Year Hybrid ARM Disclosure

Program disclosure for Hybrid ARMs. All loan submissions of Hybrid ARMs must include the appropriate ARM Disclosure.

VA ARM Certification

Certification Veteran borrower received both the ARM Program disclosure and the Consumer Handbook on Adjustable Rate Mortgage. All loan submissions of Hybrid ARMs must include this certification.

VA Notice to Homeowner

VA Notice of Assumption of VA Guaranteed Mortgages. Veteran borrower must execute notification prior to or at the time of loan closing.

Veterans Certification

Veteran must complete and sign this disclosure. If Veteran responds "yes" to any of the questions numbered 1 through 4, then the Verification of Benefit Related Indebtedness form must be sent to the VA regional office for completion. The Veteran must complete the nearest living relative information. All loan submissions must include this form.

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Closing Forms

Report and Certification of Loan Disbursement – VA 26-1820

Used to report all closed home loans (both automatic and prior approval) to VA and request guaranty

VA Notice to Homeowner

VA Notice of Assumption of VA Guaranteed Mortgages. Veteran borrower must execute notification prior to or at the time of loan closing.

Miscellaneous Forms

Certificate of Release or Discharge from Active Duty – DD Form 214

The Defense Department issues to each Veteran a DD-214, identifying the Veteran's condition of discharge - honorable, general, other than honorable, dishonorable or bad conduct. Before January 1, 1950, several similar forms were used by the military services, including the WD AGO 53, WD AGO 55, WD AGO 53-55, NAVPERS 553, NAVMC 78PD, and the NAVCG 553. This form is required for the Veteran to obtain a Certificate of Eligibility. While not required on every transaction, the DD-214 is required in cases of recently discharged Veterans and documents a 2 year employment history.

Other Important Links/Documents

[*VA Regional Loan Centers*](#)

[*2011 VA County Loan Limits*](#)

How to read an Active Duty Leave & Earnings Statement (LES)

For interactive explanation/understanding of the LES for Army, Navy, Air Force, Reserves/National Guard, or for the Civilian Pay Interactive LES, see the link below:

<http://www.dfas.mil/militarymembers.html>

Federal Income Tax Chart

<http://www.irs.gov/pub/irs-pdf/p15.pdf> The "Employer's Tax Guide," Circular E, issued by the Internal Revenue Service. Use the income tax withholding from gross wage charts for monthly payroll.

Department of Revenue/State and Local Income Tax information

<http://www.aicpa.org/yellow/yptsgus.htm>

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Loan Requirements

- 15, 20, 25 and 30 year fixed rate terms available.
- 3/1 ARM and 5/1 ARM available.
- Minimum 640 credit score regardless of AUS decision.
- Minimum loan amount is \$40,000.
- Maximum mortgage amount of \$417,000 (includes the VA funding fee). **The total loan amount, including the funding fee, may never exceed the maximum VA County loan Limit.**
- DO/DU findings reflecting Approve/Eligible and Refer/Eligible (manual underwrites) are acceptable.

Loan Restrictions (Ineligible)

- New Construction located within a Flood Zone
- Cash Out refinances > 90% LTV.
- VA loans approved based on non-traditional credit history (borrower must have traditional credit with valid credit scores).
- Refinance loans that are restructured / in forbearance / short payoff loans or loan modifications.
- Non Occupying Co-Borrowers
- Veteran with Non-Veteran / Non-Spouse, including “Common Law Marriages”. (See [Veteran Eligibility Rules](#))
- Escrow waivers

Maximum LTV / CLTV

Purchase Transactions

Maximum 100% LTV / CLTV (calculated on base mortgage amount, exclusive of Funding Fee, subject to Vet’s available entitlement). **The total loan amount, including the funding fee, may never exceed the maximum VA County loan Limit.**

Cash-Out Refinance

Maximum 90% LTV / CLTV (calculated on base mortgage amount exclusive of Funding Fee, subject to Vet’s available entitlement). **The total loan amount, including the funding fee, may never exceed the maximum VA County loan Limit.**

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Eligibility Requirements

Veteran Eligibility Rules/Documentation Requirements

Veterans Discharged From Regular Military

For Veterans that have been discharged from regular military, the *Certificate of Release or Discharge From Active Duty* (DD Form 214) will generally contain all the information needed for VA to make an eligibility determination for persons who served in a regular component of the Armed Forces.

MMI will require a legible copy of DD Form 214 for all recently discharged Vets (or if needed to document a 2 year employment history). Persons separated from military service after January 1, 1950 should have received DD Form 214. Persons separated after October 1, 1979 should furnish Copy 4 of DD Form 214 that includes character of service and separation reason. Persons separated from active duty before January 1, 1950 received documentation other than DD Form 214.

To be acceptable, the DD Form 214 should indicate the length of service and character of service. A DD Form 215 is issued to correct any incorrect information on a DD-214. If a DD-215 is submitted, the DD-214 must also be included.

Veterans Discharged From the Reserves/National Guard

For Veterans that have been discharged from the Reserves/Guards, there is no one form used which is similar to DD Form 214. Discharged members of the Army or Air Force may submit either a *Report of Separation and Record of Service* (NGB FORM 22 or NGB FORM 23), or a points statement.

Typically, all members of the Reserves and/or Guard receive an annual retirement points summary that indicates the level and length of participation at or near the Veteran's anniversary date. The applicant should submit the latest such statement received along with evidence of honorable service. Required for all recently discharged Vets (or if needed to document a 2 year employment history).

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Active Duty Service Personnel

Veterans still on active duty must provide a current statement of service, signed by or at the direction of, the adjutant, personnel office, commander of the unit, or higher headquarters to which they are attached.

The *Statement of Service* is required as proof of service when a Veteran is serving on active duty. There is no one form used uniformly by the military for a statement of service. While statements of service are typically on military letterhead, some may be computer-generated. The statement of service must clearly show the following:

- Veteran's full name,
- Social Security Number (SSN),
- Date of Birth (DOB),
- The entry date on active duty,
- The duration of lost time, if any, and
- The name of the command providing the information.

Reservists

Individuals who are still members of the Reserves/Guard must provide a *Statement of Service* signed by, or by the direction of, the adjutant, personnel office or commander of the unit or higher headquarters to which they are attached.

The *Statement of Service* is required as proof of service when a reservist continues to serve in the selected reserves. There is no one form used uniformly by the military for a statement of service. While statements of service are typically on military letterhead, some may be computer generated. The statement of service must clearly show the following:

- Veteran's full name,
- Social Security Number (SSN),
- The entry date of applicant's Reserve/Guard duty, and
- Name of the command providing the information.

Members of the Reserves or National Guard who are not otherwise eligible for home loan benefits are eligible for VA loans. They must have completed six (6) years of service in the Selected Reserve and must have been honorably released unless continuing to serve in the Selected Reserve. The Selected Reserve includes reserve components of the Armed Forces, the Army National Guard and the Air National Guard. A reservist who has been discharged from the Reserves or National Guard due to a service-connected disability prior to completing six (6) years of service is also eligible.

Members of the Reserves or National Guard, mobilized under Title 10, are eligible once they have served at least 90 days. Once they are mobilized and served the required time, they are considered "regular" Veterans.

NOTE: An online printout of the *Statement of Service* is insufficient documentation. The actual *Statement of Service*, signed by the commanding officer, must be provided due to missing specific information.

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Certification of Military Reservist Status

If the borrower is in the reserves, MMI must be notified if the borrower's status has been activated to active duty. If the borrower's status changes prior to the loan closing, MMI must be notified as it could affect the underwriting of their mortgage loan.

For all loan applications, Veteran borrowers must complete the *VA Certification of Military Status* and indicate the following:

- If they are currently in the military reserves, and
- Whether or not they have/have not been activated to active duty.

NOTE: *The loan Underwriter will verify this information has been completed.*

Unmarried Surviving Spouses

Some spouses of Veterans may have home loan eligibility. The conditions to determine if the spouse qualifies are as follows:

- The unmarried surviving spouse of any Veteran who died as a result of service or service-connected causes (there is no time requirement for length of service), and
- The spouse of an active duty member who is listed as missing in action (MIA) or a prisoner of war (POW) for at least 90 days. (Eligibility under this MIA/POW provision is limited to one (1) time use only.)

The *Request for Determination of Loan Guaranty Eligibility – Unmarried Widows and Widowers* (VA Form 26-1817) must be completed and forwarded to the VA Eligibility Center. Eligibility determinations for unmarried surviving spouses may take considerably longer to process than others.

A loan obtained with a surviving spouse *Certificate of Eligibility* requires an affidavit at closing that the surviving spouse is not married.

NOTE: *A surviving spouse who remarries on or after attaining age 57, and on or after December 16, 2003, may be eligible for the home loan benefit. Applications from surviving spouses who remarried before December 16, 2003 are ineligible*

Spouses of Service Personnel Missing in Action or Prisoners of War

The spouse of any member of the Armed Forces on active duty who is listed as Missing in Action, or captured or interned in the line of duty, and has been so listed for a total of more than 90 days, is eligible for one guaranteed loan for the acquisition of a home.

Eligibility automatically terminates when the service personnel is no longer listed as Missing in Action or as a Prisoner of War.

A loan obtained with a surviving spouse *Certificate of Eligibility* requires an affidavit at closing that the surviving spouse is not married.

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Veteran with Non-Veteran /Non-Spouse

MMI will not finance a VA loan for a Veteran with a Non-Veteran/Non-Spouse either in title or on the loan (including “common law marriages”). A Veteran and a Non-Veteran other than a spouse may be eligible under VA guidelines; however, **VA will only guaranty the portion of the loan that is allocable to the Veteran’s interest in the property.** Transactions involving a Veteran who will hold title with another party that is not his/her spouse, are considered joint loans by VA, even if the other party will not be an applicant/borrower on the loan. No portion of the guaranty applies to the portion of the loan allocated to the non-Veteran. In the event of a foreclosure where a loss is sustained, the mortgagee must absorb any loss attributable to the non-Veteran’s portion. **Generally, this does not provide enough coverage for the lender on the loan and is not eligible for financing.**

For example, if the transaction has a sales price/loan amount of \$100,000 with the Veteran and a non-Veteran/non-spouse holding title, the Veteran’s interest in the property would be 50%. The loan guaranty certificate would only show a loan amount of \$50,000 and VA’s guaranty would only apply to that amount.

Two or More Veterans that are Not Married

If the borrowers are two Veterans that are not married and both are using their entitlement, the loan must be underwritten by MMI and then MMI will send to VA as this loan must be underwritten on prior approval basis by VA. VA will issue a Certificate of Commitment (VA Form 26-1866). Any changes to the loan between issuance of the Certificate of Commitment and loan closing must be approved by VA.

Military Personnel Within 12 Months of Active Duty Release

A Veteran borrower or reservist who is within 12 months of release from active duty as of the anticipated date of loan closing requires certain specific information.

An enlisted Veteran borrower’s *Leave and Earnings Statement* (LES), an officer’s orders, or a member of the National Guard or Reservist’s current contract will show the date of expiration of the Veteran’s current contract for active service. If that date is within 12 months of the anticipated date that the loan will close, the loan package submitted for approval must include one (1) of the following:

- Documentation that the Veteran or reservist has in fact 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 release from active duty, including the date employment will begin and earnings must be included, or
- A statement from the service member that he/she intends to re-enlist or extend his/her period of active duty to a date beyond the 12 month period following the projected loan closing date, **PLUS**
- A statement from the service member’s commanding officer confirming:
 - That the service member is eligible to re-enlist or extend his/her active duty as indicated, **and**
 - That the commanding officer has no reason to believe that such reenlistment or extension of active duty will not be granted.

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Documentation of other unusually strong, positive underwriting factors may also be used as compensating factors, such as:

- A down payment of a least 10%
- Significant cash reserves
- Clear evidence of strong ties to the community coupled with a non-military spouse's income so high that only minimal income from the active duty service member is needed to qualify.

Certificate of Eligibility

The Certificate of Eligibility (COE) reflects the amount a Veteran may have available for guaranty on a loan. A Certificate of Eligibility is required on all purchase and cash-out transactions and is utilized to calculate the Veterans Entitlement. See [Entitlement Code chart](#) below.

To obtain a COE, use VA's online application to obtain the COE. Go to VA's Information Portal and select webLGY from applications, then select Eligibility and follow the prompts. In many cases, a COE can be generated in seconds. If not, select a link to submit an electronic application. This method allows you to upload supporting documentation, if necessary, and submit an application electronically to the Eligibility Center.

Veterans may also apply for a COE online. For more information, visit the VA website at www.homeloans.va.gov/eligibility.htm. Obtain a Prior Loan Validation through webLGY by selecting Eligibility from the toolbar and then Prior Loan Validation. If the Prior Loan Validation is unsuccessful, submit an electronic application to require a Certificate of Eligibility.

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Entitlement Codes			
Entitlement Codes:	Era	Era Date	Time Required
01	World War II	09/16/40 - 07/25/47	90 days
08	Post World War II	07/26/47 - 06/26/50	181 days
02	Korean War	06/27/50 - 01/31/55	90 days
03	Post-Korean	02/01/55 - 08/04/64	181 days
04	Vietnam War	08/05/64 - 05/07/75 <u>Note:</u> The Vietnam Era began 02/28/61 for those individuals who served in the Republic of Vietnam.	90 days
09	Post-Vietnam	05/08/75 - 09/07/80 05/08/75 - 10/16/81 09/08/80 - 08/01/90 10/17/81 - 08/01/90	Enlisted - 181 days Officers - 181 days Enlisted - 2 years* Officers - 2 years* <u>*Note:</u> The Veteran must have served two (2) years or the full period for which called or ordered to active duty (at least 90 days during wartime and 181 days during peacetime).
10	Persian Gulf War	08/02/90 - present	2 years <u>*Note:</u> The Veteran must have served two (2) years or the full period for which called or ordered to active duty (at least 90 days during wartime and 181 days during peacetime).

Entitlement Codes for Other Eligible People		
Entitlement Code	Other Eligible Persons	Time Required
None	Active Duty Member <u>Note:</u> Certificate only valid while Veteran remains on active duty	90 continuous days (181) during peacetime).
11	Reserves/National Guard	6 years in Selected Reserves (unless active duty under Title 10 or 90 continuous days
06	Un-remarried Surviving Spouse	There is no time requirement. Veteran must have died on active duty or from a service-connected disability.
07	Spouse of POW/MIA	Veteran must have been POW or MIA 90 days.
05	Entitlement Restored	Time required remains as per tables.

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Calculating Veterans Entitlement

Complete the VA Entitlement Worksheet (found on the MMI website) to assist in determining the maximum mortgage loan amount and the amount of down payment or equity required for Veterans with full or partial entitlement. **The guaranty percentage can never be less than 25% in compliance with GNMA requirements.**

Loan Amount	Maximum Potential Guaranty
Up to \$45,000	50% of the loan amount
\$45,001 to \$56,250	\$22,500
\$56,251 to \$144,000	40% of the loan amount with a maximum of \$36,000
\$144,001 to \$417,000	25% of the loan amount with a maximum of \$104,250

NOTE: *The Veteran must provide a written statement regarding membership in the Reserve or National Guard.*

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Funding Fee

General

The Veteran must pay a funding fee on all VA loans. The funding fee is a one-time, up-front charge applied as a percentage to the Base Loan Amount. The funding fee may be financed in whole (rounded to the nearest \$1.00) or paid in cash, unless VA has exempted the Veteran.

The funding fee is a one-time fee that is charged at closing. The funding fee is not refundable, even if the Veteran refinances to another VA loan at a later date. There are no monthly premiums on the funding fee.

The loan amount may exceed the applicable LTV by the amount of the funding fee; however, it cannot exceed the VA County Loan Limits. If the purchase price and base loan amount exceeds the VA County Loan Limits and the borrower is making a cash down payment, the VA Funding Fee can be financed in.

The Certificate of Eligibility must be reviewed closely to verify if the borrower has previously used his/her eligibility as noted by the appropriate Entitlement Code (see [Entitlement Codes](#)). The following persons are exempt from paying the funding fee:

- Veterans receiving VA compensation for service-connected disabilities,
- Veterans who would be entitled to receive compensation for service-connected disabilities if they did not receive retirement pay, and
- Surviving spouses of Veterans who died in service or from service-connected disabilities.

NOTE: Exemption is verified by the VA Benefit-Related Indebtedness Letter (VA Form 26-8937). The funding fee **cannot** be waived under any circumstances without VA's executed statement of the Veteran's exempt status on the VA Benefit-Related Indebtedness Letter

On November 21, 2011, the President signed H.R. 674. Section 265 of the law raises funding fees to the pre-November 18, 2011 levels. The fees specified in Section 265 are valid through September 30, 2016.

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Requirements

The following table shows the required funding fee percentages for purchase and construction loans and cash-out refinances according to type of Veteran, down payment and use of prior entitlement.

Purchase Loans			
Type of Veteran	Down Payment	Percentage for First-Time Use	Percentage for Subsequent Use
Regular Military (Active Duty or Veteran)	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%

¹ The higher subsequent use fee does not apply if the Veteran's only prior use of entitlement was for a manufactured home loan not titled as real estate (real property).

Cash-Out Refinance Loans		
Type of Veteran	Percentage for First-Time Use	Percentage for Subsequent Use
Regular Military (Active Duty or Veteran)	2.15%	3.30% ¹
Reserves/National Guard	2.40%	3.30% ¹

¹ The higher subsequent use fee does not apply if the Veteran's only prior use of entitlement was for a manufactured home loan not titled as real estate (real property).

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Veteran/Borrower (Eligible/Ineligible)

General Information

Eligibility for the VA home loan benefit can only be determined by VA and must be evidenced by a VA Certificate of Eligibility (COE). Once it is determined the Veteran is eligible for the benefit, the loan must be underwritten to determine whether the Veteran is eligible for the loan. VA loans are generally made only to a Veteran and their spouse (if married). See below for other Veteran/Borrower combinations.

More than four (4) borrowers to a transaction not allowed.

Eligible Veteran/Borrower Combinations

- Veteran
- Veteran and non-Veteran spouse (must be married – common law spouses not eligible)
- Two Veterans who are married to each other where only one Veteran will be using entitlement
- Two Veterans who are married to each other where each Veteran will be using entitlement
- Un-remarried surviving spouse of an eligible Veteran who died due to service-connected injuries (if determined to be 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 to be eligible by a VA-issued COE)

Eligible Veteran/Borrower Combinations that require VA Approval (Joint Loans)

The following borrower combinations require underwriting approval by VA and exception processing by MMI. Pricing adjustment may apply.

- Two Veterans who are not married to each other where each Veteran will be using entitlement

Ineligible Veteran/Borrower Combinations

Any type of borrower not listed as eligible, including but not limited to:

- 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
- Foreign Nationals and borrowers with diplomatic immunity (see [General Provisions](#) for Citizenship requirements)

NOTE: Personal occupancy is required for single Veterans, whether or not the Veteran is on active duty. No family member or person other than the Veteran's spouse can satisfy the occupancy requirement for the Veteran. The property must be occupied within 60 days of loan closing.

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Occupancy

Owner occupied, primary residence only. 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.

Maximum LTV for Purchase Transactions

Assuming sufficient entitlement, existing and occupied dwellings over one year old may use 100% of the lesser of:

- The VA Notice of Value
- The contract/sales price

100% maximum CLTV allowed.

Maximum LTV for Paying off an Installment Land Contract

Assuming sufficient entitlement, the maximum mortgage amount is the lesser of:

- 100% of the VA Notice of Value, or
- The sum of the outstanding balance of the loan to be refinanced plus allowable closing costs (including the funding fee), prepaids and discount points.

Cash-out is **not** permitted. No Seasoning Requirement.

Maximum LTV for New Construction by Property Type

Assuming sufficient entitlement:

Home built FOR Veteran on lot acquired by Veteran

100% of the lesser of:

- The VA Notice of Reasonable Value, or
- The construction contract price, plus any unpaid balance on the note for the land purchase.

Home built BY Veteran on lot acquired by Veteran

100% of the lesser of:

- The VA of Reasonable Value, or
- The actual cost of construction (exclusive of Veterans' own labor), plus any unpaid balance on the note for land purchase.

Property (house and lot) purchased from builder as package

100% of the lesser of:

- The VA Notice of Value, or
- The contract/sales price.

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Property construction was financed by a construction loan

100% of the lesser of:

- The VA Notice of Value appraised value, or
- The outstanding balance on the construction loan, plus
 - Any unpaid balance on the note for land purchase (if acquired separately), and
 - Closing costs, including discount points paid by the Veteran.

Property was financed under an installment land sale contract

100% of the lesser of:

- The VA Notice of Value appraised value, or
- The balance of any remaining installments payable, plus closing costs, including any discount points paid by the Veteran.

100% maximum CLTV allowed in all of the above instances. No cash back to borrower allowed.

NOTE: *The lot equity may NOT be financed in the loan amount. See table below for an example of the calculation used to determine the maximum loan amount.*

Factor	Amount
Balance of Construction Loan	\$70,000 (a)
Lot Value	\$25,000
Current balance owed on lot	\$10,000 (b)
Closing costs & discount	\$3,000 (c)
Maximum VA loan amount	\$83,000 (a + b + c)

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Additional Purchase Underwriting and Eligibility Criteria:

Fully Executed Residential Purchase Agreement

All purchase transactions require this document to be signed by ALL parties. The current owner of record must execute as the seller of subject property. All borrowers on the loan application must sign the agreement. All sellers that sign purchase agreement must be authorized by that entity.

Seller Property Disclosure

A seller must disclose to a buyer all known material defects about the property being sold that are not readily observable. This disclosure statement is designed to assist the seller in complying with disclosure requirements and to assist the buyer in evaluating the property being considered.

NOTE: *This disclosure is not required on bank/investor owned properties*

Amendatory Clause/VA Escape Clause

The Amendatory Clause is intended to ensure that prospective homebuyers with VA guaranteed loans receive important information in a timely manner about the house to be purchased. If buyers have not received information about the appraised value of the home they intend to buy, the buyers are not obligated to buy the home. The borrower (buyer) and seller must execute this document. Please refer to our website for a copy of this form.

NOTE: *This disclosure is not required on bank/investor owned properties*

Real Estate Certification

This disclosure signed by ALL parties involved in the transaction, borrower, seller, real estate agent or broker, etc...certifies that the terms and conditions of the sales contract are true to the best of their knowledge. Please refer to our website for a copy of this form.

NOTE: *This disclosure is not required on bank/investor owned properties.*

Short Sales

MMI will accept purchase transactions where the seller is selling the home under a "short sale" agreement with their current lender. MMI must be provided the fully executed short sale approval letter, and the requirements set forth by the current lender must be met prior to closing.

Property Flipping

Purchase transactions **do not** require the seller to be in title for a minimum of 90 days to be eligible for VA financing. However, a 12 month chain of title is required on all transactions. Properties that have multiple title transfers within the last year may require additional documentation, or could be deemed ineligible for sale to MMI.

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Second Appraisal Requirements / Desk Review / Field Review

These may be required on properties with significant increase in value within 91 to 180 days.

Prior Sales

To be evidenced by the most recent Warranty Deed from the seller's acquisition of the property that reflects the dollar amount of the sale or the certificate of foreclosure on bank owned properties.

12-Month Chain of Title

To be evidenced by the most recent Warranty Deed from the seller's acquisition of the property that reflects the dollar amount of the sale.

Non Occupying Co-Borrowers

Not permitted.

Downpayment Assistance Programs (DAPs)

VA does not permit the use of Downpayment Assistance Programs.

Maximum LTV / Eligibility for Cash-Out Refinance Transaction

Called "cash out" by VA, even if the borrower receives no cash at closing (assuming sufficient entitlement). Includes rate/term refinance or payoff of Conventional loan and payoff of installment land contract:

- Existing occupied over one year old. 90% maximum LTV. 90% maximum CLTV.
- No Seasoning Requirement.
- Property must have an existing lien by the Veteran and the Veteran must be in title to the property. Properties free and clear are not eligible.

Additional Refinance Underwriting and Eligibility Criteria

Mortgage Payoffs

All refinance transactions will require current payoffs (all liens on title). The mortgage being refinanced must be current for the month due. For example, a refinance of a mortgage anytime in March must have had the February payment made (borrowers who are delinquent or in arrears under the terms and conditions of their mortgage are not eligible).

Short Payoffs

Not eligible.

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Subordinate liens

Subordinate liens, including credit lines, regardless of when taken, may remain outstanding (but subordinate to the VA-guaranteed mortgage) and are subject to 90% CLTV. A copy of the current note is required and the borrower must qualify with the scheduled monthly payments. A subordination agreement will be required. Modified existing subordinate liens are acceptable and are not considered a new subordinate lien.

New subordinate liens may be placed behind the VA-guaranteed mortgage and are subject to 90% CLTV. The borrower must qualify with the scheduled monthly payments.

Non-Occupant Co-Borrowers

Not permitted on refinance transactions.

Property Listed for Sale

Property may not have been listed for sale a minimum of six months prior to the application date or the loan is subject to a maximum 70% LTV. In all circumstances, listing agreements must be cancelled prior to the loan application. The listing agreement, evidence of cancellation, and signed/dated explanation from the borrower with the reason why the property was for sale is required at the time of loan submission. These transactions pose additional risk to MMI and therefore may be subject to additional documentation and/or limitations.

Payoff Used for Mortgage Amount Calculation

The amount of the existing first mortgage may include the interest charged by the servicing lender when the payoff will not likely be received on the first day of the month. In determining the existing debt as part of the mortgage amount calculation, accrued late charges and escrow shortages may be included. Fax fees and delinquent interest may **never** be included.

Prepaid expenses may include the per diem interest to the end of the month on the new loan, hazard insurance premium deposits, monthly mortgage insurance premiums and any real estate tax deposits needed to establish the escrow account regardless of whether the mortgagee refinancing the existing loan is also the servicing lender for that mortgage.

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Qualifying Ratios

The VA qualifies the Veteran borrower on a single ratio (no housing ratio), as well as residual income. Residual income is the balance available for family living expenses after deducting income and social security taxes, debts, job related expenses, obligations, and monthly shelter expenses (maintenance and utility costs) from the borrower's income. Loans not approved through DU must have a maximum 41% debt-to-income (DTI) ratio, unless significant compensating factors are present. If the DTI exceeds 41%, residual income must exceed the guideline by at least 20% (regardless of AUS approval) or a second level signature is required for approval (the balance available for family support must exceed the guideline by 120%).

Residual income equals gross income less the following items listed below:

- PITI
- HOA
- Maintenance and utilities
- Federal, state, local and Social Security/Medicare taxes
- Revolving and installment debts
- Alimony/child support
- Job related expenses (child care expenses, travel, meals, etc.), and
- Negative rental income.

Grossing Up Non-Taxable Income

Tax-Free income may be "grossed up" for purposes of calculating the DTI ratio only (not residual income). This is a tool that may be used to lower the debt ratio for Veterans who clearly qualify for the loan. "Grossing up" involves adjusting the income upward to a pre-tax or gross income amount which, after deducting state and Federal income taxes, equals the tax-exempt income. Use current income tax withholding tables to determine an amount which can be prudently employed to adjust the borrower's actual income. Do not add non-taxable income to taxable income before "grossing up." If "grossing up" is used, indicate such and provide the "grossed up" ratio in item 47, of the "Remarks" section of the VA Loan Analysis Worksheet (VA Form 26-6393).

Maintenance and Utility costs for all regions

VA has established a nationwide figure of 14 cents per square foot. For example: 1500 square foot home x .14 = \$210.00 /mo maintenance utilities. This is to be entered in box 19 (Maintenance & Utilities) of the VA Loan Analysis Worksheet (VA Form 26-6393).

The Monthly Maintenance & Utility figure is used to calculate residual income only and is not calculated in the DTI.

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Residual Income Tables

Special instructions for using Residual Income Tables:

Count all members of the household (without regard to the nature of the relationship) when determining “family size”, including:

- An applicant’s spouse who is not joining in title or on the note, and
- Any other individuals who depend on the applicant for support. For example, children from a spouse’s prior marriage who are not the applicant’s legal dependents.

Exception

The lender may omit any individuals from “family size” who are fully supported from a source of verified income which, for whatever reason, is not included in effective income in the loan analysis.

As examples:

- A spouse not obligated on the note, who has stable and reliable income sufficient to support his or her living expenses, or
- A child for whom sufficient foster care payments or child support is received regularly.

A key to the geographic regions is listed in the tables below:

Table of Residual Incomes by Region For loan amounts of \$79,999 and below				
Family Size	Northeast	Midwest	South	West
1	\$390	\$382	\$382	\$425
2	\$654	\$641	\$641	\$713
3	\$788	\$772	\$772	\$859
4	\$888	\$868	\$868	\$967
5	\$921	\$902	\$902	\$1,004
over 5	Add \$75 for each additional member up to a family of seven.			

Table of Residual Incomes by Region For loan amounts of \$80,000 and above				
Family Size	Northeast	Midwest	South	West
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1,025	\$1,003	\$1,003	\$1,117
5	\$1062	\$1,039	\$1,039	\$1,158
over 5	Add \$80 for each additional member up to a family of seven			

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Key to Geographic Regions Used in the Preceding Tables			
Northeast	Connecticut Maine Massachusetts	New Hampshire New Jersey New York	Pennsylvania Rhode Island Vermont
Midwest	Illinois Indiana Iowa Kansas	Michigan Minnesota Missouri Nebraska	North Dakota Ohio South Dakota Wisconsin
South	Alabama Arkansas Delaware District of Columbia Florida Georgia	Kentucky Louisiana Maryland Mississippi North Carolina Oklahoma	Puerto Rico South Carolina Tennessee Texas Virginia West Virginia
West	Alaska Arizona California Colorado	Hawaii Idaho Montana Nevada	New Mexico Oregon Utah Washington Wyoming

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Collateral Requirements

To be eligible for VA Guaranty, a property is to be free of health and safety hazards and major structural problems.

Eligible Collateral

- Single Family Residence.
- 2-4 Unit Dwellings (Veteran must occupy one of the units).
- Planned Unit Dwellings (PUDs). *Do not require VA approval
- Townhome/Rowhome.
- Condominiums (Must be approved by VA – no exceptions)
- Log; Dome; Berm Homes; Pier Foundations; Auxiliary/Accessory Dwelling Units; Homes with extreme functional obsolescence (i.e. one bedroom) – Must be common and typical for the area and have like comparables.
- Modular Homes – Must be “off frame” or “off chassis”.

Ineligible Collateral

- New Construction located within a Flood Zone
- Flood Hazard Area where the community does not participate with FEMA
- Mobile/Manufactured Homes
- Agricultural; Commercial/Industrial use
- Income Producing Properties/Mixed Use Properties
- Boarding Houses, Hotel, Motels and Tourist Homes
- Fraternity and Sorority Houses
- Leasehold Properties (title must be held in Fee Simple interest only)
- VA Indian Leasehold Properties
- Properties currently listed for sale (refinances)
- Non-Owner Occupied Properties
- 2nd Homes
- Time-Share Units/Cooperatives
- Construction Financing.
- Properties vested in Life Estates/Trusts.
- Multiple dwellings on a single parcel of land.
- Properties that do not meet VA’s Minimum Property Requirements (MPRs) – see below.
- Properties rated in “fair” or “poor” condition for any loan program.

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Appraisals

Ordering an Appraisal

VA appraisals are ordered through VA's webLGY, in which appraisal assignments are automatically made on a rotational basis by VA. **You must be approved as an Agent of MMI prior to ordering your appraisal.** If you are not already an approved Agent with MMI, [click here](#) for approval instructions.

VA Case Number Assignments

Every VA loan in process must have a VA case number assigned to the subject property prior to requesting an appraisal. WebLGY allows lenders to request and receive case numbers and appraisal assignments on line within seconds. A user ID and password are required to access the system. WebLGY may be accessed at the following website address: <https://vip.vba.va.gov/portal/VBAH/Home>.

VA Appraisal Assignment

Please follow the process below when ordering VA appraisals.

1. Upon login to the Veteran's Information Portal (VIP) <https://vip.vba.va.gov/portal/VBAH/Home> and choose WebLGY (TAS has migrated to WebLGY). Then select "Request an Appraisal" (this function assigns a loan number and appraiser to a single property case).
2. Under Origination Appraisals, select "LAPP" (Lender Appraisal Processing Loans).
3. Enter MMI's sponsor ID # 749814-00-00, and enter vaappraisals@michiganmutual.com under 1C (you may enter more than one email address separated by semicolons). Complete the form as required.

The following additional requirements apply:

- 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.
- VA REO's: Properties purchased as VA Real Estate Owned (REO's) are not eligible for LAPP Appraisals. The VA will issue the Notice of Value (NOV) if the Liquidation Appraisal issued by the VA is less than 6 months old. Contact the Regional Loan Center where the property is located for the liquidation appraisal. To request a NOV from the VA submit a completed paper copy of VA Form 26-1805 (Request for Determination of Value) to the VA Regional Loan Center. VA will then transfer the appraisal from the current servicer, if applicable to MMI and issue a new case number. Note that the MMI VA underwriter still needs to perform complete underwriting on these transactions.
- MMI will provide the NOV (Notice of Value) and a copy of the appraisal to the veteran at the address provided to us above. We will also include a copy to the broker contact provided.

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Appraisal Requirements

Appraisals are not intended to be property inspections; however, appraisers are required by VA to determine the overall condition of the subject property and recommend any readily observable repairs necessary to meet the Minimum Property Requirements as provided by VA (see [Minimum Property Requirements](#)). An appraisal is required to help ensure that any property that will become the security for a VA-guaranteed loan:

- Has a loan-to-value (LTV) within program parameters, and
- Is in a condition acceptable to VA

VA requires appraisers to include Fannie Mae's Market Conditions Addendum, Form 1004MC, in all VA appraisal reports.

Uniform Appraisal Dataset (UAD)

Effective for all case numbers assigned on or after January 1st, 2012, and for all residential property appraisals with an effective date (date of inspection) on or after January 1, 2012, appraisal reports must be completed in compliance with the Uniform Appraisal Dataset (UAD). This rule applies to all VA mortgage loans.

The UAD defines all fields required for an appraisal submission for specific appraisal forms and standardizes definitions and responses for a key subset of fields. UAD was formulated to improve the quality and consistency of appraisal data. The UAD does not change the look of the existing appraisal forms, but some fields on the forms are being extended to include additional information.

The appraisal forms that must be UAD-Compliant effective January 1st are:

- *Uniform Residential Appraisal Report (FNMA Form 1004)*
- *Individual Condominium Unit Appraisal Report (FNMA Form 1073)*
- *Exterior-Only Inspection Individual Condominium Unit Appraisal Report (FNMA Form 1075)*
- *Exterior-Only Inspection Residential Appraisal Report (FNMA Form 2055)*

NOTE: *MMI is unable to accept properties with a Condition Rating of C5 or C6, nor a Quality Rating of Q5 or Q6.*

Compliance Inspection Report (VA Form 26-1839)

This is used by the appraiser to report the completion of repairs and/or the satisfaction of requirements and conditions noted in the original appraisal report for existing/new/proposed construction. This form will be used in lieu of form Appraisal Update and/or Completion Report Form (1004D)

Appraisal Rebuttal Process

Any requests for changes to repairs and/or value to the NOV must be made in writing with supporting documentation to the MMI LAPP Underwriter (SAR). The SAR will work with the appraiser and/or VA if necessary and issue a revised NOV if applicable.

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Appraisal Portability/VA Case Transfers

Cases may be reassigned between lenders in webLGY. In transactions where a borrower has switched brokers/lenders, at the borrower's request, the case will be reassigned to the second broker/lender, including the appraisal report. VA does not require that the client name (lender name) or the borrower name on the appraisal be changed when it is transferred (case number transfer executes appraisal transfer) to another lender. In accordance with the Uniform Standard of Professional Appraisal Practice (USPAP), the broker/lender **is not** permitted to request that the appraiser change the name of the client within the appraisal report. Michigan Mutual will accept the appraisal report in the name of the original Direct Endorsed (D.E.) Lender. The NOV must be reissued by MMI. Second appraisals are not allowed by VA and may not be charged to the Veteran.

Appraisal Validity Period

The Notice of Value (NOV) for properties appraised as existing, new, proposed or under construction is valid for six months. NOVs cannot be re-used after the mortgage for which the appraisal was ordered has closed. A new NOV/appraisal is required for each purchase/refinance transaction requiring an appraisal. Example: an appraisal used for the purchase of a property cannot be used again for a subsequent refinance, even if the six months has not elapsed.

FEMA Declared Disaster Area Policy

If the subject property has had an appraisal completed prior to a declared disaster, prior to the end date of a declared disaster, or after a declared disaster with no comments addressing the post-disaster condition of the property from the appraiser, a 1004D with photos will be required to recertify the value/condition of the subject property.

Repair Escrows

MMI does not allow repair escrows on VA guaranteed mortgages.

Minimum Square Footage

All properties must have a minimum of 750 square feet. Exceptions will be considered for properties between 650 and 749 square feet if two thirds of the comparables also have < 750 square feet.

Acreage

No maximum number of acres; however, property cannot have agricultural use and comparables must have similar acreage.

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Minimum Property Requirements

VA Minimum Property Requirements (MPRs) provide general acceptability criteria for properties that will become the security for VA-guaranteed loans. MPRs provide a basis for determining that the property is safe, structurally sound, sanitary, and meets the standards considered acceptable in a permanent home in its locality. All properties, including foreclosed properties, must be in a condition that meets MPRs or have a reasonable likelihood the property can be repaired to meet the MPRs prior to loan closing. In those cases where repairs are required, the VA appraiser must list on the appraisal report any repairs necessary to meet MPRs and provide an estimate of the fair market value for the property, as if repairs are completed. The property seller is expected to pay for these required repairs since they are included in the estimate of value. It is not allowable to escrow funds from the Veteran purchaser for use in making the required repairs. Properties not likely to meet VA's MPRs (list not all inclusive):

- An area subject to regular flooding, whatever the reason, whether or not it is located in an SFHA (Special Flood Hazard Area) designated by FEMA
- A Coastal Barrier Resources System Area. The CBRS is a system of protected coastal areas that includes oceanfront land, the Great Lakes, and Other Protected Areas (OPAs).
- An Airport Noise Zone 3, if proposed or under construction.
- A transmission line easement involving high-pressure gas or liquid petroleum or high-voltage electricity, if any part of the residential structure is located within the easement
- An area susceptible to geological or soil instability (such as earthquakes, landslides, or other history of unstable soils), if proposed/under/new construction, and the builder cannot provide evidence that either the site is not affected or the problem has been adequately addressed in the engineering design.
- Any property ownership not fee simple.
- Properties without a permanent heat source.
- Properties without domestic hot water, a continuing supply of safe and potable water for drinking and other household uses.
- Properties without sanitary facilities and a safe method of sewage disposal.

Attic

It is the homeowner/seller's responsibility to provide clear access to this area. VA appraisers are required to observe the attic area. The attic must be properly ventilated. Dampness and moisture must be address and if excessive and is required to be corrected.

Crawl Space

There must be adequate access to the crawl space. The appraiser is required to make, at a minimum, entry of the head and shoulders. Crawl space must be clear of debris and properly vented. Dampness and moisture must be address and if excessive and is required to be corrected.

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Roof Inspection and Life Expectancy

The covering must prevent moisture from entering and provide reasonable future utility, durability, and economy of maintenance. The appraiser must visually examine the roof to determine whether deficiencies present a health and safety hazard or do not allow for reasonable future utility. The roof should have a remaining physical life of at least two years.

Snow Covered Roof

In areas of the country where the snow is likely to lay for more than a few days, the appraiser is required to make an extra thorough inspection of the attic and all visible roofing areas for signs of failing roofing materials.

- If there is evidence of damage and/or leaks, the appraiser is to condition for further inspection.
- If there is no evidence of damage and/or water leaks, the borrower must be informed that the roof was snow covered at the time of the appraisal and that it is acceptable to the purchaser/borrower without any warranty or guarantees from VA and/or MMI.

In areas of the country where the snow **is not** likely to lay for more than a few days, a clear roof inspection **by the appraiser** is to be obtained prior to closing.

Estimated Remaining Economic Life

The appraiser is required to indicate the estimated remaining economic life of the subject property as a single number or as a range. The subject property must possess sufficient remaining physical life to warrant a long-term mortgage. VA requires a minimum of 30 years remaining economic life.

Access to Property

Each property must be provided with a safe and adequate pedestrian or vehicular access from a public or private street. All streets must have an all-weather surface. Private streets must be:

- Protected by a permanent easement, and
- Maintained by a homeowners association or joint maintenance agreement.

Access to Living Unit

Access to the living unit must be provided without passing through any other living unit. Each living unit must be able to be used and maintained individually without trespass upon adjoining properties. Any easements required must run with the land.

Access to Rear Yard

Access to the rear yard must be provided without passing through any other living unit. For a row-type dwelling, the access may be by means of:

- Alley
- Easement
- Passage through the subject dwelling

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Party Walls

A building constructed to a property line must be separated from the adjoining building by a wall extending the full height of the building from the foundation to the roof ridge. The wall may separate row type townhouses or semi-detached units.

Gas and Petroleum Pipelines

No part of any residential structure may be located within a high pressure gas or liquid petroleum pipeline easement. Any detached improvements even partially in the pipeline easement will not receive value for VA purposes.

High Voltage Electric Transmission Lines

No part of any residential structure may be located within a high voltage electric transmission line easement. Any detached improvements, even partially in a transmission line easement, will not receive value for VA purposes. In addition, the residential structure may not be located within the fall zone.

Condominiums

All condos must be approved by VA, and meet VA MPRs. A printout from VA's CPB (Condo/PUD/Builder) is required to evidence the condominium project is approved by VA. Site condominiums are included as VA **does not** recognize these as single family dwellings.

NOTE: *If the word "condo" appears in the legal description, the property will be deemed a condo.*

The approved list can be accessed on the internet at the following web address:

<https://vip.vba.va.gov/portal/VBAH/VBAHome/condopudsearch>

Condominium Property Eligibility

Eligible

- Existing Construction (all units, common elements, and facilities within the project must be 100% complete, as evidenced by issuance of the final Certificate of Occupancy and the Homeowners Association has been turned over).
- Proposed and/or New Construction are not eligible.

Ineligible

- Condominium Hotel or "Condotels" and Co-Ops
- Manufactured Home Condominiums and Houseboat projects
- Multi-dwelling unit condominiums (i.e. more than one dwelling per condominium unit)
- Leasehold projects
- Any/all projects not deemed to be used primarily as residential
- Projects consisting of only one unit

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Additional Insurance Requirements

For condos, in addition to \$1 million Liability Insurance / Fidelity Bond Coverage, MMI requires the borrower to purchase an HO-6 Insurance Policy (“Walls-In” insurance). This will insure the flooring, cabinetry, countertops, etc for the individual units. These items are not covered by the Association’s Master Policy or by a borrower’s Contents Policy. The dwelling coverage needs to reflect 20% of the appraised value of the subject property, at a minimum.

Site Condominiums

Condominium project approval **is required** for Site Condominiums. Site Condominiums are single family, totally detached dwellings (no shared garages or any other attached building) encumbered by a Declaration of Condominium Covenants or condominium form of ownership.

NOTE: *These cases must also be run through DU as Condominiums*

Condominium Conversions

Condo conversions are eligible if the following conditions are met:

- The conversion occurred more than one year before the borrower(s) application for a mortgage;
- Is an established project.
- The Homeowner’s Association has been turned over to the unit owners for no less than 12 months.
- Either the borrower or co-borrower were tenants of that rental project prior to conversion; and
- The project meets all other VA requirements for approval and is VA Approved.

NOTE: *New Condominium Projects in the State of Florida are not eligible.*

Planned Unit Developments (PUDs)

PUDs do not require VA Approval. The estate must not be less than fee simple, title must not be subject to unreasonable restrictions on use and occupancy, and any mandatory homeowner association dues must be subordinate to the VA-guaranteed mortgage. In addition, the AUS findings must reflect the property as a PUD and the PUD rider is required to be executed at closing.

Commercial/Industrial Zoning

While there are no zoning classification restrictions, the property must have residential use and all comparables must have similar influence. The Zoning Compliance must be Legal or Legal Non-Conforming. The highest and best use of the subject property as improved (or as proposed) must be the present use. Illegal properties are not eligible for VA financing.

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Properties Listed for Sale within the Last 12 Months (Refinances)

Cash out transactions require the MLS to be cancelled at least six months prior to the application date or the loan is subject to a maximum 70% LTV. In all circumstances, listing agreements must be cancelled prior to the loan application. The listing agreement, evidence of cancellation, and signed/dated explanation from the borrower with the reason why the property was for sale is required at the time of loan submission. These properties pose an increased risk to MMI, therefore may be subject to additional documentation and/or limitations.

Multiple Parcels of Land

Properties with multiple parcels are only acceptable if one of the following criteria is met:

- All parcels were part of the original acquisition of the property as verified by the warranty deed.
- Any additional parcels included on title/appraisal, are designated as non-buildable and cannot be legally split from the subject property. Appraiser must comment on this.

Property Seasoning

For refinance transactions, there is not a seasoning requirement.

New Construction/less than 1 year old versus existing construction will be determined by the date on the Certificate of Occupancy.

Purchase transactions **do not** require the seller to be in title for a minimum of 90 days to be eligible for VA financing. However, a 12 month chain of title is required on all transactions. Properties that may have multiple title transfers within the last year may require additional documentation or could be deemed ineligible for sale to MMI.

Lead-Based Paint

Lead-based paint constitutes an immediate hazard that must be corrected, unless testing shows that lead is not present in the paint at a level above that permitted by law.

VA Appraisers must:

- Assume that a defective paint condition (involving cracking, scaling, chipping, peeling, or loose paint) on any interior or exterior surface of properties built prior to 1978 involves lead-based paint.
- Clearly identify the location of such conditions, and
- Recommend correction.

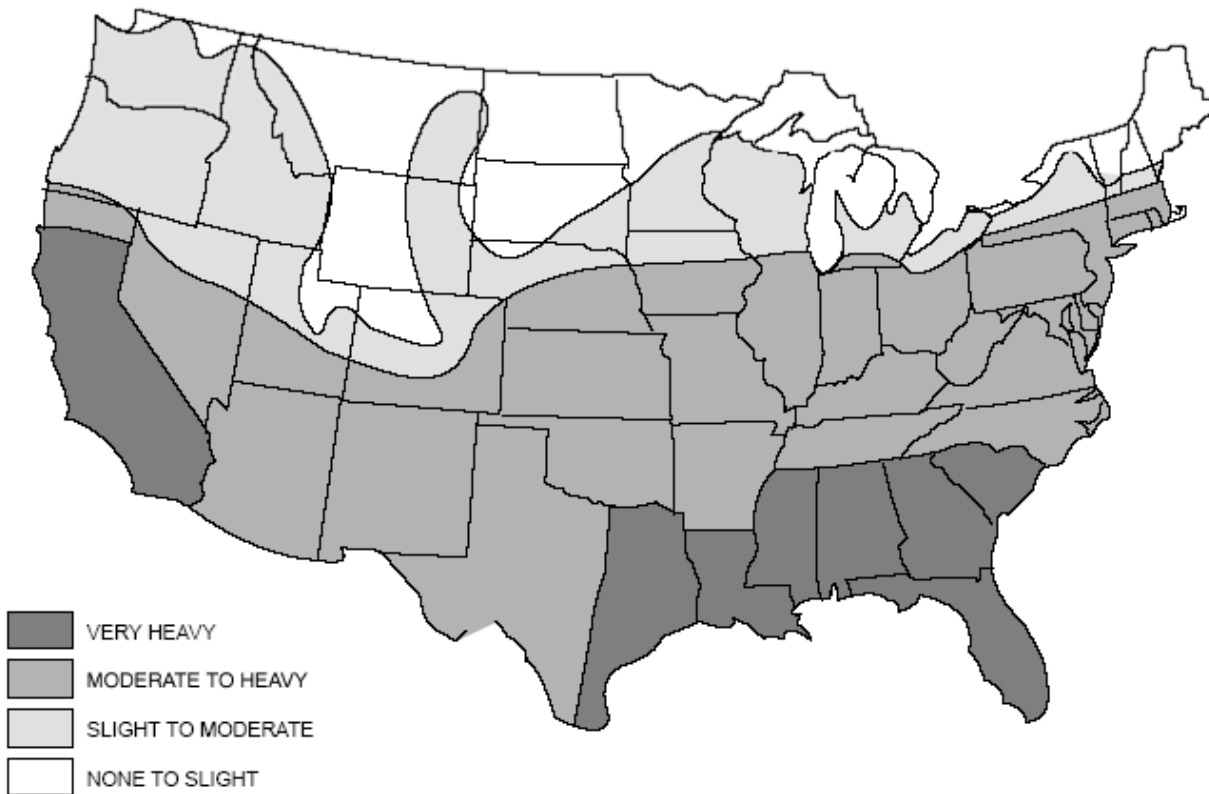
Any defective paint condition identified must receive adequate treatment to prevent the ingestion of contaminated paint. **Lead-Based Paint must be abated by a contractor/firm that is a EPA trained/certified professional.** The surface requiring treatment must be thoroughly washed, scraped, wirebrushed or otherwise cleaned to remove all cracking, scaling, peeling, chipping and loose paint and then repainted with two coats of a suitable nonleaded paint

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Termite Inspections

Wood destroying insects and other organisms can cause serious problems in the wooden structural components of a house, and may go undetected for a long period of time. VA requires a termite inspection when there is evidence of a condition conducive to pest infestation (as noted by the appraiser), and for all **existing properties** if the property is located in an area where the probability of termite infestation is “Very Heavy” or “Moderate to Heavy” according to the Termite Infestation Probability (TIP) Map published in the International Residential Code. States requiring termite inspections on all purchase and refinance transactions are reflected on the TIP Zone Map (states reflected are subject to MMI licensing).

TIP Zone Map



Condominium Units in a TIP Zone

Regardless of TIP Zone, VA only requires a termite inspection when the fee appraiser observes/notes a potential problem/condition conducive to pest infestation.

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New Construction Properties

VA requires a termite inspection on new construction properties. The builder must complete the form HUD-NPCA-99-A, Subterranean Termite Protection Builder's Guarantee (see [New Construction Requirements](#)), providing a 1-year guarantee and indicating that one of the following accepted treatment methods was used:

- Bait system, or
- Wood (pressure preservative treated wood as outlined in ML 01-04). Under "Type of Treatment", check the box titled "wood" and add statement "Complies with Mortgagee Letter 2001-04 for use of preservative treated wood", or
- Soil (Chemical Soil treatment) - HUD-NPCA-99-B is to be used with form HUD-NPCA-99-A only if the property is treated with a soil termiticide. The licensed pest control company is responsible for completing form HUD-NPCA-99-B, as appropriate, and providing it to the builder who is responsible for distribution. Please see ML99-03, or
- Building using steel, masonry or concrete building components (with only minor interior wood trim and roof sheathing.). Under "Type of Treatment" on form the builder is to add in the space to the right of the box titled "Soil" the statement "Masonry (steel or concrete) construction, no treatment needed. Complies with ML 01-04."

The use of post-construction soil treatment where a chemical termiticide is applied only around the perimeter of the foundation is NOT acceptable.

NOTE: All chemical soil treatments, bait systems, and chemical wood treatments must be approved by the Environmental Protection Agency (EPA) and applied in accordance with the EPA label instructions.

Water and Sewage Systems Requirements

Each living unit must contain the following:

- Domestic hot water
- A continuing and sufficient supply of potable water under adequate pressure and of appropriate quality for all household uses
- Sanitary facilities and a safe method of sewage disposal

If the property has a well and/or septic, and there is public water and/or sewer available to the property, a public connection is required unless the cost is considered prohibitive. If the cost to connect the well and/or septic will exceed 3% of the estimated value of the property, then connection to the public system is not required.

The property is ineligible for a VA-guaranteed loan if served by any of the following:

- Spring
- Lake
- River
- Cistern/Cesspool
- Dug Well
- Well located within the foundation walls

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Individual Water Supply System (Well)

A well test (or inspection) is required under the following circumstances:

- If mandated by state or local jurisdiction;
- If there is knowledge that the well water may be contaminated;
- If the appraiser suspects a problem and requires a water test;
- When the water supply relies upon a water purification system due to the presence of contaminants; or
- When there is evidence of:
 - Corrosion of pipes (plumbing)
 - Areas of intensive agriculture within ¼ mile
 - Coal mining or gas drilling operations within ¼ mile
 - Dump, junkyard, landfill, factory, gas station, or dry cleaning operation within ¼ mile
 - Unusually objectionable taste, smell or appearance of well water

Shared Well

A shared well is acceptable provided a “shared well agreement” is executed by and obligates all of the parties involved (and their successors in title). **A shared well can only service up to four properties.** The legal instrument that is signed by all of the property owners must include language that supports:

- Reasonable and fair provisions for maintenance and repair of the system and the sharing of those costs, and
- Is binding on the signatory parties and their successors in title, and
- Is recorded in local deed records or in recordable form.

The Shared Well agreement must be fully executed (and either recorded or in recordable form), and provided in the loan submission package at time of underwriting. In addition, the following requirements must be met:

- The quality of the water is found acceptable (documentation from the health department or local authority)
- The well meets local code
- The water supply has sufficient volume or capacity to service all of the properties
- There must be a permanent easement which allows access for maintenance and repair

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Community Well

If the property is serviced by a community well system, VA requires documentation such as the articles of incorporation or bylaws and/or Community Well agreement that will support the following:

- Service will be continuous and cannot be stopped and/or interrupted.
- The rate of the service, and that it is reasonable
- Identify the property/our borrowers have ownership rights
- The maintenance and expense of the well are properly managed
- That the well has been tested within the last year and meets local or state authority water quality requirements (the most recent test must be provided)
- Evidence of approval of the facilities by the appropriate State or local public utility and/or health authority

The Community Well agreement must be fully executed (and either recorded or in recordable form) and provided in the loan submission package at time of underwriting.

Water Testing

Water testing is required in **all** of the above cases. Certification must be provided by one of the following:

- Health authority approval from the local municipality;
- A licensed water lab

The water must meet the requirements of the Environmental Protection Agency EPA and the maximum contaminant levels established by the EPA will apply. The water must be checked for the following contaminants:

- Lead (First Draw)
- Nitrate (as Nitrogen)
- Nitrite (as Nitrogen)
- Total Nitrate/Nitrite
- Total Coliforms
- Fecal Coliforms or E Coli

The Minimum Water Quality Testing Parameters for HUD reflecting the Maximum Contaminant Levels allowed and the required treatments is posted on the MMI website. Click [here](#) for Water Testing Requirements Chart.

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Individual Sewage System (Septic)

A well test (or inspection) is required under the following circumstances:

- If mandated by state or local jurisdiction;
- If the appraiser suspects a problem with the system and requires a test;
- Problems are common in the area; or
- If there is knowledge there is a problem with the system
- May be required in cases where the property has been vacant
- If inspection is required certification must be provided by one of the following:
 - Health authority approval from the local municipality;
 - A licensed sanitarian

Distance Between the Well and the Septic System

VA has no specific minimum property setback distance between the well and the dwelling or property line. Additionally, VA has not established a minimum acceptable "separation distance" between an individual well and a septic tank/leach field. However, there should be adequate separation distance between these facilities to preclude contamination of the well water by the septic tank or its leach field. Determinations such as minimum distance from property lines or "acceptable" separation distance between well and septic tank (or septic field) are typically made by the local/county building, planning, and/or environmental health authority.

VA's general individual (well) water requirements are found in VA Lender's Handbook, Chapter 12, Minimum Property Requirements

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Credit

Documentation Requirements

Verification of Institutional Mortgage History

A current payoff is required (on all refinance transactions) and one of the following:

- Verification of Mortgage dated within thirty days of closing.
- If mortgage history is current on credit bureau and last reported date is within sixty days, and payoff shows current, no Verification of Mortgage is required. This applies to subject property and any other properties owned. (If mortgage is included as part of a bankruptcy or is otherwise not reported accurately on credit, a payment history/ledger will be required).
- 12 months canceled checks (front and back) or 12 consecutive month's bank statements showing payments.

Verification of Rental Payment History

If Verification of Rental Payment History is required, one of the following options may be used:

- VOR from an uninterested party.
- 12 months canceled checks (front and back) or 12 consecutive month's bank statements showing payments.

Land Contract/Contract for Deed

- Copy of Land Contract.
- Last 12 (or from inception of the contract) consecutive months canceled checks (front and back), or bank statements showing payments.

Lease With Option to Purchase

- A copy of Lease w/Option Agreement, and
- Last 12 consecutive months canceled checks (front and back), or bank statements showing payments

NOTE: All Lease Options are treated as purchase transactions. Any deposit put down at the time agreement was executed can be used toward the down payment, as long as a copy of the cancelled check can be provided as verification. Rent credit can be applied for the amount of rent paid over and above the standard market rents (as evidenced by a comparable rent schedule provided with the VA appraisal).

Housing Payment History

Purchases

1x30 on housing payment history (all residences collectively) is permitted in the last 12 months.

Cash Out Refinances and Refer Recommendations

A 0x30 housing payment history on all residences in the last 12 months is required.

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Credit Requirements

Bankruptcy

Chapter 7 Bankruptcy

MMI will deem the age of the bankruptcy by the discharge/dismissal date for chapter 7. Chapter 7 BK's discharged less than 2 years will not be eligible. (Exceptions may be made and files will be reviewed on a case-by-case basis with documentable extenuating circumstances).

Chapter 13 Bankruptcy

- Currently in Chapter 13 Bankruptcy (BK not discharged) – This does not disqualify a borrower, provided that one year of the payout period under the bankruptcy has elapsed and the borrower's payment performance has been satisfactory (i.e., all required payments made on time). If a mortgage is included in the BK, the most recent 12 month mortgage history reflecting all mortgage payments have been paid within the month due and the mortgage pay off statement reflecting zero (0) delinquent interest is required. In addition, the borrower must receive permission from the BK court to enter into the mortgage transaction.
- Discharged Chapter 13 – If BK has been discharged within the last 12 months from date of loan application, MMI will require the complete BK documents (with all schedules and pages) and the complete payment history reflecting all required payments made according to the plan (must have minimum 12 months paid through the plan).

Foreclosure/Deed-in-Lieu

A borrower is not eligible for a new VA-guaranteed mortgage when, during the previous three years, he/she had real property that was foreclosed or has given a deed-in-lieu of foreclosure. The three years is calculated from the date of the foreclosure (Sheriff's Deed) or deed-in-lieu to the date of the loan application. Exceptions to the three year period (but not less than 2 years) may be granted if the foreclosure was the result of documented extenuating circumstances that were beyond the control of the borrower (such as death of a primary wage earner) and the borrower has re-established good credit since the foreclosure. The inability to sell a property and/or divorce is not considered extenuating circumstances. However, the situation in which a borrower's loan was current at the time of a divorce in which the ex-spouse received the marital property (per the divorce decree the ex-spouse is held liable for the mortgage) and the property was later foreclosed will not be considered in borrower's credit analysis.

Consumer Credit Counseling

Regardless of AUS Approve/Eligible or Refer/Eligible (manual underwrites), MMI will require a minimum 12 month payment history from CCC showing 0x30. In addition, a letter of authorization from the CCC Agency is required, allowing borrower to obtain new mortgage financing. CCC plan payment must be included in DTI calculation.

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CAIVRS

Perform and document a CAIVRS screening on each Veteran and any co-obligor. 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 Veteran and the Federal agency. See payment plans below.

Borrowers/Co-Borrowers

- Occupying: MMI requires a minimum 640 middle credit score for all borrowers.
- Non-Occupying Co-Borrowers: Not permitted.

Accounts with No Monthly Payment Reported

For revolving and installment debt, MMI will use 5% of the monthly balance if the credit report does not reflect a monthly payment or satisfactory documentation of the monthly payment cannot be provided (for revolving accounts, the greater of 5% of the balance or \$10 will be used).

Contingent Liability

Contingent liability exists when an individual will be held responsible for payment of a debt should another joint obligated party default on the payment. Unless the borrower can provide conclusive evidence from the debt holder that there is no possibility the debt holder will pursue debt collection against him or her should the other party default, the full payment will be included in the DTI (e.g. in a divorce situation we require the divorce decree with the property settlement indicating which spouse obtains the marital property and that the other spouse is released from liability). If the account is paid as agreed and the last 12 months canceled checks are provided (showing the co-obligor is making the payments), this monthly payment will not be included in the borrower's debt ratio. Accounts listed on the credit report that are not paid as agreed, and/or accounts in borrower's name only (individual accts) will be included in the debt ratio. In cases of Divorce when the Judgment for Divorce indicates the ex-spouse has received the marital property and is liable for the debt, TOTAL Scorecard / DU Approve/Eligible transactions may only require the Judgment for Divorce / Divorce Decree in which case cancelled checks would not be required.

Joint/Co-signed Debts by Applicants

If the account is paid as agreed and the last 12 months canceled checks are provided (showing the co-obligor is making the payments), this monthly payment will not be included in the borrower's debt ratio. Accounts listed on the credit report that are not paid as agreed, and/or accounts in borrower's name only (individual accts) will be included in the debt ratio.

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Installment Debt

Installment accounts (excluding leases) with less than 10 payments remaining on the balance may be excluded from the debt-to-income ratio (DTI). If the amount of the debt affects the borrower's ability to make the mortgage payment during the months immediately after loan closing, MMI will include the debt in the DTI (particularly if the borrower will have limited or no cash assets after loan closing).

NOTE: Lease accounts are always included in debt ratio, regardless of number of months remaining on the lease agreement.

Recurring Obligations

Debts lasting more than ten months must be included. The following must be included when computing the debt-to-income ratios for recurring obligations:

- Monthly housing expense
- Installment debt lasting ten or more payments (see installment debt above)
- Child support or separate maintenance payments (such as alimony) lasting ten or more payments (see installment debt above)
- Revolving and/or Open-Ended accounts, regardless of the balance, are counted as a liability for qualifying purposes even if the account appears likely to be paid off within ten (10) months or less.

Projected Obligations

If a debt payment, such as a student loan, is scheduled to begin within twelve months of the mortgage loan closing, the anticipated monthly obligation will be included in the DTI unless the borrower provides written evidence that the debt will be deferred for 12 months from loan closing. MMI will use 5% of the monthly balance if the credit report does not reflect a monthly payment or satisfactory documentation of the monthly payment cannot be provided. Similarly, balloon notes, "12 months same as cash", etc. will be considered in the DTI.

Obligations Not Considered Debt

Obligations *not* to be considered debt (or subtracted from the borrower's gross income) for qualifying purposes include federal, state and local income taxes; FICA or other retirement contributions such as 401K contributions (including 401K Loans); union dues child care; open accounts with zero balances and voluntary deductions to one's bank/investment account.

Payment Plans

MMI will accept payment plans (in lieu of payoff) for collections/charge-offs, tax liens, etc., if the payment arrangement has been established for at least 12 months. However, if borrower has the ability to pay the account off with loan proceeds, account must be paid in full. Borrower must provide monthly repayment plan, acceptable 12 month payment history reflecting payments made according to plan with no history of late payments (no 30 day+ late payments), and borrower must qualify with monthly payment.

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Subordinating a Lien

If a lien is being subordinated, MMI will require a fully executed subordination agreement prior to closing. Tax liens may be subordinated, provided there is an acceptable payment plan in place for a minimum of 12 months. CLTV cannot exceed 90% on refinances, and 100% on purchases.

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Employment/Income

Generally, borrowers must be employed for 2 years in the same line of work and have at least 12 months on the current job. In most circumstances, employment less than 12 months is not considered stable and reliable; however, it may be considered stable and reliable if the individual facts warrant such a conclusion. Income less than 12 months will be considered on a case-by-case basis; however, no less than 6 months will be accepted. MMI will use a college degree and/or transcripts to document previous history, if dated within 6 months of current employment start date. **MMI will do a phone verification of employment on all loans within 10 days of closing.**

Military Personnel within 12 Months of Active Duty Release

A Veteran borrower or reservist who is within 12 months of release from active duty as of the anticipated date of loan closing requires certain specific information.

An enlisted Veteran borrower's *Leave and Earnings Statement* (LES), an officer's orders, or a member of the National Guard or Reservist's current contract will show the date of expiration of the Veteran's current contract for active service. If that date is within 12 months of the anticipated date that the loan will close, the loan package submitted for approval must include one (1) of the following:

- Documentation that the Veteran or reservist has in fact 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 release from active duty, including the date employment will begin (earnings must be included), or
- A statement from the service member that he/she intends to re-enlist or extend his/her period of active duty to a date beyond the 12 month period following the projected loan closing date, **PLUS**
- A statement from the service member's commanding officer confirming:
 - That the service member is eligible to re-enlist or extend his/her active duty as indicated, **and**
 - That the commanding officer has no reason to believe that such reenlistment or extension of active duty will not be granted.

Documentation of other unusually strong positive underwriting factors may also be used as compensating factors, such as:

- A down payment of a least 10%,
- Significant cash reserves, and/or
- Clear evidence of strong ties to the community, coupled with a nonmilitary spouse's income so high that only minimal income from the active duty service member is needed to qualify.

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Military Allowances

Active Duty Veterans are eligible for allowances in addition to their base pay. The following allowances are reflected on a Vet's Leave and Earnings Statement when applicable:

Military Quarters Allowance

Military quarters allowance is indicated on the LES and may be included in effective income if properly verified. In most areas, there will be an additional variable housing allowance, which can also be included. The military quarters and variable housing allowances are **not** taxable income.

Subsistence and Clothing Allowances

Any subsistence (rations) and clothing allowances are indicated on the LES and may be included in effective income if properly verified. These allowances are **not** taxable income.

NOTE: *The clothing allowance generally appears on the LES as an annual amount. Convert it to a monthly amount for the loan analysis.*

Other Military Allowances

To consider a military allowance in the underwriting analysis, obtain verification of the type and amount of the military allowance, and how long the applicant has received it. Examples include propay, flight or hazard pay, overseas pay, and combat pay.

NOTE: *All of these are subject to periodic review and/or testing of the recipient to determine continued eligibility. These types of allowances are considered taxable income by the IRS, unlike housing, clothing, and subsistence allowances.*

Military allowances may be included in effective income only if such income can be expected to continue because of the nature of the recipient's assigned duties.

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Leave and Earning Statement (LES)

The Leave and Earning Statement (LES) is a comprehensive statement which shows the service member's leave and earnings for the month. The LES is divided into three major areas: Entitlement, Deductions, and Allotments. Each area categorizes what the service member has earned for the month.

The service member has the option of receiving his or her pay one or two times a month. If they select to receive their pay twice a month they will receive an "Advice of Payment" (AOP). The AOP provides the service member a brief view of their semi-monthly pay on the 15th of each month. The service member will then receive an "End of the Month" (EOM) LES statement capturing all the monthly entitlements, deductions, allotments and any appropriate details.

The LES also records and maintains the service member's leave information, tax withholding information, and Thrift Saving Plan (TSP) Information. Active duty service members are able to go on myPay and request copies of their LES for the past 12 months. Reserve and National Guard can request copies for the past 3 months. However, service members may go into their servicing finance office and request a copy of their LESs.

Hourly or Salaried Employees

Provide one of the following:

- Two computer-generated, most recent year-to-date pay stubs documenting one full month's earnings, and last two years W-2's.
- One computer-generated, most recent year-to-date pay stub documenting one full month's earnings, and a signed Verification of Employment.
- Non-computer generated or handwritten pay stubs require last two years W-2's and Verification of Employment.

Overtime and Bonus Income

Overtime and bonus income can be used to qualify if the borrower has received this income for the past two years and the income stream has been consistent and is likely to continue. If the income has not been stable and/or is not likely to continue, it may not be used to qualify. Periods of overtime and bonus income received for less than two years may be acceptable and will be considered on a case-by-case basis.

Second Jobs / Part-Time Income

Second jobs / part-time Income can be used to qualify if the borrower has received this income for the past two years and the income stream has been consistent and is likely to continue. If the income has not been stable and/or is not likely to continue, it may not be used to qualify. Periods of second jobs / part-time income received for less than two years may be acceptable and will be considered on a case-by-case basis.

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Commission Income

Commission income (including borrowers paid piece work / piece job, truckers paid per mile, etc) can be used to qualify if the borrower has received this income for the past two years, the income stream has been consistent, and is likely to continue. If the income has not been stable and/or is not likely to continue, it may not be used to qualify. Periods of commission income received for less than two years may be acceptable and will be considered on a case-by-case basis (commission income earned for less than one year will not be considered effective income). In addition to normal employment, copies of tax returns for the last two years are required and any [Unreimbursed Employee Business Expenses](#) must be subtracted from the gross income prior to calculating the borrower's housing and debt-to-income ratios.

1099 Employees

Provide one of the following:

- Last two years tax returns and one computer-generated pay stub no more than 30 days old at time of closing, showing year-to-date earnings.
- Last two years tax returns and a signed Verification of Employment no more than 90 days old at time of closing, showing year-to-date earnings.

Unreimbursed Employee Business Expenses / Automobile Allowances

Unreimbursed Employee Business Expenses from Schedule 2106 must be deducted from the borrower's income.

Only the amount by which the borrower's automobile allowance exceeds the automobile expense may be used as income (the difference between the automobile allowance and the 2106 expense may be added to income if positive or must be treated as a liability if negative).

In addition, the borrower's auto loan payment must be counted as a debt, and may not be offset by the automobile allowance.

Self-Employed

Last two years tax returns and a signed, year-to-date profit and loss statement will be required. A business credit report may be required in some instances.

NOTE: *A Profit & Loss Statement (P&L) will be used to support a two year income average; however will not be used for qualifying purposes.*

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Non-Taxable Income

Tax-free income may be grossed up for purposes of calculating the DTI ratio **only** – not residual income. This is a tool that may be used to lower the debt ratio for Veterans who clearly qualify for the loan. Grossing up non-taxable income involves adjusting the income upward to a pre-tax or gross income amount, which, after deducting state and Federal income taxes, equals the tax-exempt income. Use current income tax withholding tables to determine an amount which can be prudently employed to adjust the borrower's actual income.

When entering non-taxable income into a LOS, be sure to use the actual income (prior to grossing up), as DU will calculate residual income automatically, and grossed up income **cannot** be used to calculate residual income. If grossing up income to qualify, note the calculation and the resulting ratios in the Remarks section of the VA Loan Analysis Worksheet (VA Form 26-6393).

Some examples of non-taxable income include:

- Social Security
- Child Support
- Foster Care
- Military Allowances, such as:
 - Basic Allowance for Housing (BAH)
 - Basic Allowance for Subsistence (BAS)
 - Clothing allowances
 - Hazard pay
 - Rations allowance
 - Combat pay
 - Flight pay
 - Overseas pay, etc. (Also, see above Military Income)

NOTE: All of these income types require a minimum 3 year continuance to be used for qualifying.

“Other” Income

Taxable benefits, which may not be grossed up. Examples include:

- Pension (in most circumstances)
- Alimony

NOTE: All of these income types require a minimum 3 year continuance to be used for qualifying.

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Social Security Disability Income

Requires documentation the income will continue for at least the first full three years of the loan (from loan closing date) or the income may only be considered as a compensating factor. Documentation required:

- The initial Award Letter indicating the borrower has been disabled for at least 5 years will be accepted as documentation of continuance of income along with the most current Award Letter, or
- Written statement from the borrower's doctor on letterhead indicating the borrower is permanently disabled along with the most current Award Letter.

Social Security Income Received for a Child

Requires documentation the income will continue for at least the first full three years of the loan (from loan closing date) or the income may only be considered as a compensating factor. Documentation required:

- The child's Award Letter and birth certificate reflecting the child is ≤ 14 years old (if the child is 15 or older there is not a 3 year continuance of income).

Social Security Received for an Adult Child (18 or older) or Parent

Requires documentation the income will continue for at least the first full three years of the loan (from loan closing date) or the income may only be considered as a compensating factor. Documentation required:

- The initial Award Letter reflecting the borrower as payee/guardian, indicating the adult child/parent has been disabled for at least 5 years will be accepted as documentation of continuance of income along with the most current Award Letter; or
- Written statement from the borrower's doctor on letterhead indicating the borrower is permanently disabled along with the most current Award Letter; and
- Legal Guardianship documents reflecting the borrower as legal guardian for the adult child/parent are required.

Foster Care Income

Verify the foster care income with:

- Letter of verification from the organization providing the income; and
- Copies of the borrower's most recent 3 months bank statements confirming regular deposit of payments; and
- Most recent 2 years tax returns with all schedules/pages (must document a 2 year history of receipt)

Short Term Disability/Workman's Comp

Not eligible. No Exceptions.

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Maternity Leave

Borrowers on maternity leave must be back to work as evidenced by a pay check stub with 30 days worth of earnings.

Rental Income

Borrower must have a 2 year history of managing rental properties as evidenced by 2 years tax returns (Schedule E).

Documentation Requirements

- If property acquired in previous tax year, tax returns will be required for documentation of rental income.
- If property was acquired during the current tax year, a one year signed lease agreement is acceptable with evidence of security deposit received (cancelled check or bank statement verifying deposit). MMI will use the vacancy factor of 25% for all properties.

Subject Property Rental Income from Owner-Occupied 2-4 Units

MMI will use the vacancy factor of 75% for all properties and the borrower is required to have a minimum of 6 months cash reserves. There also must be evidence the applicant has a reasonable likelihood of success as a landlord.

Principal Residence Being Vacated in Favor of another Principal Residence

If the Veteran is converting a current principal residence to an investment property upon purchase of a new principal residence, the following requirements apply:

- Both the current and proposed monthly housing expenses must be used to qualify; and
- Rental income **may not** be used to qualify; and
- Rental income **may not** be used to offset the mortgage payment; and
- Evidence of cash reserves totaling 6months PITIA for both properties must be provided.

Exceptions

Only under the following circumstances may rental income on the property being vacated by the borrower, reduced by the vacancy factor of 25%, be used, and the 6 month reserve requirement waived:

- Relocations: The homebuyer is relocating with a new employer, or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance, or
- Sufficient equity in the existing principal residence being vacated: The homebuyer has equity of at least 30% (a 70% or less LTV) as determined by a current (no more than 120 days old) residential appraisal. 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. A rental income analysis will also be required to support the monthly rental income.

NOTE: A properly executed lease agreement (i.e., a lease signed by the homebuyer and the lessee) of at least one year's duration is required. In addition, evidence of receipt and deposit of the security deposit and/or evidence the first month's rent paid to the homeowner must be provided.

Pending Sale of Real Estate

In instances where the Veteran intends to sell the property but it will not close before the purchase of a new principal residence occurs, the principal, interest, taxes and insurance (PITI) plus mortgage insurance, if applicable, on both the pending sale and the subject property must be included in qualifying the borrower, and:

- Document cash reserves totaling at least six month PITI for both properties; **or**
- Document cash reserves totaling at least two months PITI for both properties if able to document equity of at least 30% (75% LTV) in the existing property as determined by a current (no more than 120 days old) residential appraisal. The appraisal, in addition to using forms Fannie Mae1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae1075/Freddie Mac 466.

The PITI of the pending sale does not need to be included in qualifying the borrower (in the DTI/balance available for family support) as long as the six months of reserves (or two months with documented equity) for both properties are documented and the following additional documentation is provided:

- The fully executed sales contract for the current residence with realtor/title company evidence of receipt of EMD, **and**
- Evidence that any/all financing contingencies have been met / cleared.

Conversion of Principal Residence to a Second Home

If the Veteran's current principal residence is being converted to a second home upon purchase of a new principal residence:

- Both the current and proposed PITI must be used to qualify the borrower for the new loan; **and**
- Minimum reserves of six months PITI for both properties are required. However, only reserves of two months PITI are required for both properties if 30% equity in the existing principal residence is documented with a current (no more than 120 days old) residential appraisal. The appraisal, in addition to using forms Fannie Mae1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae1075/Freddie Mac 466.

Section 8 Income

Section 8 income may not be used to qualify.

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Deductions from Income

The appropriate deductions for Social Security, Federal income taxes, and any state or local taxes must be taken into consideration in order to calculate the borrower's residual income on the *VA Loan Analysis* (VA Form 26-6393).

FICA Withholding

FICA tax is a combination of Social Security and Medicare tax.

The total tax rate for a W-2 paid borrower is 5.65%. Of that, 4.2% is allocated to Social Security and 1.45% is allocated to Medicare.

The total tax rate for a self-employed borrower, or a borrower who is paid on IRS Form 1099, is 13.3%. Of that, 10.4% is allocated to Social Security and 2.9% is allocated to Medicare.

Social Security withholdings are calculated by multiplying the lesser of the taxpayer's actual wages or Social Security maximum wages by a rate of 4.20% (or 10.4% if self-employed). The maximum taxable wages may adjust each year. The maximum taxable earnings for 2010 and 2011 are \$106,800. Once the taxpayer's income exceeds the maximum amount, the Social Security tax is no longer required. Unlike Social Security withholdings, all of the taxpayer's wages are subject to the Medicare tax.

Income Tax Withholdings

Federal Income taxes must be determined using the "Employer's Tax Guide," Circular E, issued by the Internal Revenue Service. The web address is <http://www.irs.gov/pub/irs-pdf/p15.pdf>. Use the income tax withholding from gross wage charts for MONTHLY payroll.

State and local taxes must be determined using similar materials to those provided by the state and local authority. The following website provides a listing of state Department of Revenue links: <http://www.aicpa.org/Research/ExternalLinks/Pages/TaxesStatesDepartmentsofRevenue.aspx>. Click on the state of your choice to arrive at the state web page. At this point, each state appears to have information under different titles and in different locations within their website.

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Assets

Borrower's Own Funds to Close

MMI follows AUS findings for acceptable documentation.

Most Recent Two Month's Bank Statements

When using most recent bank statements, large deposits must be explained and documented. MMI considers large deposits as any non-payroll deposit of \$1000 or more. Monies for closing to be supported by bank statement dated within 30 days of closing.

Verification of Deposit

When using a VOD, a two month average balance must be reflected (current balance must show sufficient funds required). Large increases must be explained and documented.

HUD-1 from Sale of Current Residence

Final HUD-1 from sale of current residence is acceptable documentation, providing it is dated within 30 days of loan closing.

Cash Back on Purchases

Not allowed; however, items the borrower has paid outside of closing (i.e. appraisal, homeowner's insurance) may be reimbursable through seller contributions at the time of closing. Borrower must provide satisfactory documentation of payment for these services prior to closing.

Gift of Equity

A gift of equity from a blood relative is acceptable (documentation of relationship may be required). Mortgage Payoff (if any) must reflect no more than 29 days delinquent at time of closing. Any history of major delinquencies (60 days or more) reflected on title or payoff will require additional information and may not be eligible. Spouse to Spouse purchases are not acceptable except in instances such as divorce, where legal documentation (such as a divorce decree) indicates the seller/spouse will be vacating the property.

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Gift Funds

An outright gift for the borrower's investment into the transaction is acceptable if the donor is a relative, the borrower's employer, or a close friend with a clearly defined and documented interest in the borrower. The gift funds cannot be provided by any person or entity with an interest in the sale of the property, including the seller, real estate agent or broker, builder, loan officer or any other entity associated with the transaction. Evidence of relationship of donor must be acceptably documented. Transfer of funds must be documented from the donor to the recipient by a copy of the cancelled gift check and deposit slip (computer generated and identifying borrower) or bank statement showing the deposit of funds into the borrower's bank account. If gift made by Certified Check, obtain copy of Certified Check as well as a bank statement showing the withdrawal of funds from the donor's bank account and deposit slip (computer generated and identifying borrower) or bank statement showing the deposit of funds into the borrower's bank account. **Cash gifts are not allowed.** The file must also contain a VA Gift Letter which can be found on the MMI website.

Gift Funds/Grants by Charitable Organizations

Gifts administered by charitable organizations are acceptable. The gift from the charitable organization to the homebuyer must meet VA requirements and the transfer of funds must be properly documented. Gifts from charitable organizations where the seller makes a contribution are not acceptable.

Collateralized Loans

Funds can be borrowed for the total required investment as long as satisfactory evidence is provided that the funds are fully secured by an asset. Such assets may include stocks, bonds, real estate (other than the property being purchased), etc. In addition, certain types of loans secured against deposited funds, such as the cash value of life insurance policies, loans secured by 401(k)s, etc, in which repayment may be obtained through extinguishing the asset, do not require consideration of a payment for qualifying purposes. However, in such circumstances, the asset securing the loan may not be included as assets to close or otherwise considered as available to the borrower.

An independent third party must provide the borrowed funds. The seller, real estate agent or broker, lender, or other interested third party may not provide such funds. Unacceptable borrowed funds include signature loans, cash advances on credit cards, borrowing against household goods and furniture, and other similar unsecured financing.

Sale of Personal Property

If the borrower intends to sell personal property items (cars, recreational vehicles, stamps, coins, baseball card collections, etc.) to obtain funds required for closing, the borrower must provide a satisfactory estimate of their worth, in addition to conclusive evidence the items have been sold. The estimated worth of the items being sold may be in the form of published value estimates, such as those issued by automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified appraiser with no financial interest in the loan transaction. Only the lesser of this estimate of value or the actual sales price is considered as assets to close.

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Cash Saved at Home

Borrowers who have saved cash at home and are able to demonstrate adequately the ability to do so are permitted to have this money included as an acceptable source of funds to close the mortgage. To include such funds in assessing the homebuyer's cash assets for closing, the money must be verified -- whether deposited in a financial institution or held by the escrow/title company -- and the borrower must provide satisfactory evidence of the ability to accumulate such savings.

The asset verification process requires the borrower to explain in writing how such funds were accumulated (borrower must provide a budget) and the amount of time taken to do so. We will determine the reasonableness of the accumulation of the funds based on the borrower's income stream, the time period during which the funds were saved, the borrower's spending habits, documented expenses, and the borrower's history of using financial institutions. (All other factors being equal, individuals with checking and/or savings accounts are less likely to save money at home than an individual with no history of such accounts.)

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Fees and Charges

VA policy has evolved around the objective of helping the Veteran to use his or her home loan benefit; therefore, VA regulation limits the fees that the Veteran can pay to obtain a loan. There is no leeway on Veteran-paid fees and charges as shown below when making VA loans.

Fees/Charges the Veteran Can Pay:

- The VA Funding Fee
- Origination fee, not to exceed 1% flat charge (intended to cover all costs and services that are not reimbursable as itemized fees and charges, such as document preparation, settlement/closing fees, commitment/lock fees, loan application fees, processing fees, notary fees, termite inspection, postage/mailing fees, etc). 1% is based off total loan amount, including the funding fee.
- The maximum of:
 - Reasonable and customary amounts for any or all of the itemized fees and charges designated by the VA, plus
 - Reasonable discount points
- Hazard Insurance Premium (Homeowners Insurance)
- VA Appraisal
- VA Compliance Inspection Report (only if required by the NOV)
- Credit Report
- Flood Zone Determination
- Prepaid items, such as taxes and similar items for the current year chargeable to the Veteran, and the initial deposit for the tax/insurance escrow account.
- Recording fees and recording taxes or other charges incident to recording.
- Special mailing fees such as overnight fees for mailing the payoff (on refinance transactions only)
- Survey, if required or desired by the Veteran.
- Title examination and title insurance, including environmental protection lien endorsement, if required.
- Title Closing Protection Letter
- Termite inspection on refinance transaction only.

Fees/Charges the Veteran Cannot Pay

- Document preparation fees / tax service fees
- Settlement/closing fees, postage/mailing fees, overnight fees.
- Commitment/lock fees
- Tax Service fee
- Loan application fees / Processing fees
- Notary fees, Trustee fees
- Conveyance fees
- Attorney Fees (other than for title work for the mortgage commitment)
- Termite inspection on a purchase transaction
- Photographs
- Realtor Commission / Realtor Processing Fee
- Underwriting fee
- Consulting and referral fees

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Seller Contribution/Concessions

Maximum limit is 4%. Any seller concession or combination of concessions which exceeds 4% of the established reasonable value of the property is considered excessive, and is unacceptable for VA-guaranteed loans.

NOTE: Normal discount points and payment of the buyer's closing costs are not considered in the total concessions when determining the 4% limit.

A seller concession is anything of value added to the transaction by the builder or seller for which the buyer pays nothing additional, and which the seller is not customarily expected or required to pay or provide.

Seller concessions may include, but are not limited to:

- Payment of ease-in funds to reduce the borrower's monthly payment,
- Payment of funding fee,
- Payment of prepaid items (i.e., tax and insurance escrow, prepaid interest, etc),
- Payment of extra discount points to provide a permanent interest rate,
- Buydown,
- Gifts (such as a television set or microwave oven),
- Personal property items (i.e., lawn tractor, oriental rug), and
- Payment of debt(s) to assist borrower in qualifying for the loan.

If a seller is leaving personal property items (i.e., a lawn tractor), the appraiser must comment on how that affects the value of the real estate property and should provide an estimate of value for the personal property item (to determine if the seller contribution limit has been exceeded, as this is considered an "excessive" seller contribution).

Seller concessions **do not** include the items shown below:

- Payment of the borrower's closing costs, or
- Payment of points as appropriate to the market. For example, if the market dictates an interest rate of 7.5% with 2 discount points, the seller payment of the 2 points would not be a seller concession. If the seller paid 5 points, 3 of these points would be considered a seller concession.

NOTE: VA does not object to seller-paid advanced payments of recurring HOA dues or taxes that come due **during the first year of the mortgage**. In any event, the borrower's cash investment must not be reduced as the result of advanced payments paid by the seller. Additionally, the borrower must qualify with the HOA or tax payment.

Lender/Broker Contribution

Not subject to maximum limitation.

Lender credit may be applied towards prepaid items and closing costs. Lender credit is not considered a seller concession and, therefore, is not subject to the seller contribution limitation.

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Maximum Real Estate Commission

Any aggregate real estate commission cannot exceed 8% of the sales price of the subject property. Any portion of the real estate commission that exceeds 8% will be considered a seller concession and will be deducted from the sales price (for underwriting purposes) prior to calculating the LTV. Cumulative fees, including but not limited to real estate marketing fees, finder's fees, referral fees, auction fees, consulting fees or assignment of sale fees, will be included in the 8%.

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General Provisions

Citizenship

Citizenship of the United States is not required for eligibility. Borrowers must be one of the following: a U.S. Citizen, a Permanent Resident Alien, or a Non-Permanent Resident Alien. We will lend under the same terms and conditions for all three designations.

Permanent Resident Aliens

Non-United States citizens who hold acceptable evidence of permanent residency issued by the U.S. Citizenship and Immigration Services (USCIS) are considered Permanent Resident Aliens. Lawful Permanent Resident Aliens must have any of the following:

- A legible copy of the front and back of the Permanent Resident Card/Alien Registration Card (USCIS Form I-551) otherwise known as a “Green Card”. While the Green Card itself states “Do Not Duplicate” for the purpose of replacing the original card, U.S. Citizenship and Immigration Services (USCIS) allows photocopying of the Green Card. Making an enlarged copy or copying on colored paper may alleviate any concerns the borrower may have with photocopying.
- A legible copy of the unexpired foreign passport that contains an unexpired stamp reading “Processed for I-551. Temporary Evidence of Lawful Admission for Permanent Residence. Valid until (MM-DD-YY). Employment authorized”.
- Any other evidence of permanent residency issued by the INS.

Non-Permanent Resident Aliens

Non-United States citizens who are permitted to reside in the United States on a temporary basis and may have been granted authorization to work in the U.S. by the U.S. Citizenship and Immigration Services (USCIS) are considered Non-Permanent Resident Aliens. Lawful Non-Permanent Resident Alien status must have the following:

- A legible copy of a valid (unexpired), acceptable visa (a copy of valid work permit only is unacceptable) with a copy of the I-94 Arrival/Departure Record. The I-94 indicates the immigration status. In order for us to have the most recent and accurate property Visa class, it is important to copy the Arrival/Departure Record and not just the Visa since the Non-Permanent Resident Alien’s status can change (for example, from student to worker). The Visa must evidence one of the following Visa classes:
 - A Series (A-1, A-2, A-3)
 - E-1
 - G Series (G-1, G-2, G-3, G-4, G-5)
 - H-1B, H-2A, H-2B, H-3
 - L-1
 - TN, TC – See NAFTA below

NOTE: *Non Permanent Resident Aliens with Temporary Protected Status are not eligible*

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Foreign Nationals

Foreign Nationals who have no lawful residency status in the U.S. are not considered to be Non-Permanent resident aliens and are not eligible for financing. Foreign nationals from Canada and Mexico who are working in the U.S. under the terms of NAFTA are eligible. Refer to North American Free Trade Agreement Workers below.

Additional Immigration Status

Loans to non-citizens who have been granted political asylum require underwriting to Non-Permanent Resident Aliens guidelines. Asylees and refugees must provide their Arrival and Departure Records (Form I-94) and copies of their employment authorization documents. A grant of asylum is for an indefinite period.

North American Free Trade Agreement (NAFTA) Workers

Canadian and Mexican citizens who are working in the United States under the terms of NAFTA must be treated as Non-Permanent Resident Aliens when determining their eligibility. They must meet the standard requirements established for Non-Permanent Resident Aliens. NAFTA workers must provide a NAFTA Worker's Visa (see above TN and TC Visa classifications).

Diplomatic Immunity

Due to the inability to compel payment or seek judgment, transactions with individuals who are not subject to United States jurisdiction **are not eligible**. This includes embassy personnel with diplomatic immunity. Verification the borrower does not have diplomatic immunity will be determined by reviewing the Visa, passport or the U.S. Department of State's Diplomatic List at www.state.gov/s/cpr/rls/dpl/.

Social Security Number

A valid Social Security Number is required for all borrowers. Evidence of social security number must be provided in each case file. Individual Tax Identification Number (ITIN) is not acceptable.

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Legal Names

MMI requires the pertinent loan documentation (VA Case Number Assignment, loan application, credit report and closing documentation) to be prepared in the borrower's legal name. In most cases, the name reflected on the driver's license will be utilized to determine the borrower's legal name. However, in those instances where there is a variance between the driver's license and the Social Security card (or other documentation within the loan file), utilize the following examples for further guidance (Note: an AKA/FKA affidavit will be required at closing):

Nicknames

If the driver's license reflects Mike Smith and the Social Security Card (or other documentation within the loan file) reflects Michael Smith then the pertinent loan documentation must reflect the name Michael Smith.

Married Names

If a borrower has recently married (or married during loan processing), the new married name will be utilized for all pertinent loan documentation. MMI will require a copy of the marriage license if the new name is not reflected on both the driver's license and the social security card.

Multiple Name Variations

If a borrower has multiple names / hyphenated variations, the name that appears on the social security card will be utilized for all pertinent loan documentation.

Maximum Number of Financed Properties/Multiple Properties

When multiple properties are owned, all mortgages must be current at time of closing. Also, If borrower is purchasing a new home (as owner occupied); however, is not selling current residence, MMI may consider the subject as non-owner occupied if the value of the subject is not greater than current residence (case by case). The borrower(s) can have no more than four (4) properties financed, including the subject property.

VA Policy Limiting the Number of Mortgages per Borrower

There is no limit to the number of VA mortgages the borrower may have, but the borrower must have available entitlement per above.

Rescission

MMI will not waive a borrower's three-day right to rescind. No exceptions.

Taxes and Insurance Escrows

Escrows for taxes and insurance are required on all VA loans.

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Title Companies/Settlement Agents

We do not use an approved title company list. However, we reserve the right to refuse any title company/settlement agent. A loan-specific Insured Closing Protection Letter must be received prior to closing along with specific wiring instructions

Delinquent Property Taxes

Any delinquent property taxes being paid at closing on a refinance transaction will be considered a cash-out transaction. Transactions with severely delinquent property taxes must be manually underwritten and are subject to underwriter discretion.

Paying Debt at Closing

MMI will not allow debt to be paid at closing on a purchase transaction. Any debt being paid at closing (other than existing mortgages on subject property) will be considered a cash-out transaction.

Mortgage Payoffs

All refinance transactions will require current payoff statements for all liens on title reflecting a maximum of 59 days interest prior to closing (short payoffs are not eligible on refinance transactions).

4506T Processing

MMI will require IRS transcripts for the most recent two tax periods, including W-2s, 1040s, and corporate returns (if applicable). MMI will accept IRS transcripts processed by the broker (see vendor links on our website). If transcripts are not provided, MMI will process the transcripts and the fee will be charged to the borrower on the HUD-1 at closing. It is the responsibility of the broker to properly disclose this fee for income verification to each borrower appropriately on the Good Faith Estimate.

Verifications

Verification forms (VOEs/VODs/VORs, etc) must pass directly between the broker and the provider without being handled or transmitted by any third party or using any third party's equipment. Verifications must be addressed to the employer or financial institution and may not be directed to an individual (such as may be directed to Account Verification Department or Human Resources but not to John Doe). No document used in the processing or underwriting of a loan may be handled or transmitted by or through the borrower, a real estate agent or any other interested third party to the transaction. The Verification of Deposit (VOD) and Verification of Employment (VOE) may be faxed documents or printed pages from the Internet if they clearly identify their sources (e.g., contain the names of the borrower's employer or depository/investment firm). The document must contain all headers/footers. Fax transmissions must clearly identify the source and a printed web page also must show its uniform resource locator (URL) address as well as the date it was printed.

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Age of Documents

Credit document expiration dates are listed below unless the nature of the document is such that its validity for underwriting purposes is not affected by being older than the number of prescribed days (e.g. divorce decrees, tax returns).

- Credit Report - 90 days
- Paystub – 30 days
- Written VOE - 90 days
- VOD / Bank Statement – 30 days if using for funds to close (90 days allowed if only using for reserves)
- VOR – 90 days
- VOM – 30 days
- Appraisal – 180 days
- Title Commitment – 90 days

LDP/GSA Lists

The broker must examine HUD's Limited Denial of Participation (LDP) and the U.S. General Services Administration's "List of Parties Excluded from Federal Procurement and Nonprocurement Programs" (GSA) list. The LDP and GSA must be checked on all loans. If the name of the borrower, seller, listing or selling real estate agent, or loan officer appears on either list, the application is not eligible. The LDP may be checked by going to www.hud.gov and the GSA by going to <http://www.epls.gov/>, or both may be checked by logging onto the FHA Connection. Provide website printouts to reflect all parties have been checked through the LDP and GSA.

Texas Refinances

When refinancing a loan in Texas, it first has to be determined whether or not the property is eligible for max financing based on the borrower's current liens. A Texas cash out refinance is typically referred to as a 50(a)(6). There are 2 different ways a property can be subject to Texas Article XVI, Section 50(a)(6):

- If the borrower will receive **any** amount of cash out from the refinance, even if it is of an incidental amount, or
- If the borrower has ever done a cash out refinance on the subject property before, or has taken a non-purchase money second, even if the current transaction is only a rate/term refinance. *Once a Texas Equity Loan, always a Texas Equity Loan.*

MMI does not allow Texas 50(a)(6) transactions. MMI will only approve purchases, and rate/term refinance loans in Texas where the borrower has never taken equity from the property.

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CAIVRS

HUD's CAIVRS is a Federal government-wide repository of information on those individuals with delinquent or defaulted Federal debt, and on those for whom a payment of an insurance claim has occurred. The broker must obtain a CAIVRS for all borrowers via the FHA Connection. Provide the website printout of the CAIVRS number at time of loan submission. If CAIVRS indicates the borrower is presently delinquent or has had a claim paid within the previous three years on a loan made or insured by VA or HUD on his or her behalf, the borrower is not eligible except as described below. Exceptions to this rule may be granted under the following situations:

Assumptions

If the borrower sold the property, with or without a release of liability, to an individual who subsequently defaulted, the borrower is eligible, provided he/she can prove the loan was not in default at the time of the assumption.

Divorce

A borrower may be eligible if the divorce decree or legal separation agreement awarded the property and responsibility for payment to the former spouse. A mortgage history must be provided to evidence the mortgage was paid as agreed prior to the divorce or legal separation. However, if a claim was paid on a mortgage in default prior to the divorce, the borrower is not eligible.

Bankruptcy

When the property was included in a bankruptcy that was caused by documentable extenuating circumstances beyond the borrower's control (such as the death of the principal wage earner or serious long-term uninsured illness), the borrower may be eligible if the borrower meets the bankruptcy requirements for reestablished good credit. The borrower must have demonstrated a documented ability to responsibly manage his/her financial affairs. Additionally, documentation must be provided that the borrower's current situation indicates that the events that led to the bankruptcy are not likely to recur. An elapsed period of less than two years, but not less than 12 months may be acceptable.

Maximum Real Estate Commission

Any aggregate real estate commission cannot exceed 8% of the sales price of the subject property. Any portion of the real estate commission that exceeds 8% will be considered a seller concession and will be deducted from the sales price (for underwriting purposes) prior to calculating the LTV. Cumulative fees, including but not limited to real estate marketing fees, finder's fees, referral fees, auction fees, consulting fees or assignment of sale fees will be included in the 8%.

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Non-Purchasing Spouse

On a purchase transaction, a non-purchasing spouse may appear on the security instrument or otherwise take title to the property at loan settlement. No other party (including a common law spouse) may appear on the security instrument or otherwise take title to the property on a VA purchase/loan. On a purchase or refinance transaction, if required by state law (dower right/homestead states) in order to perfect a valid and enforceable first lien, the non-purchasing spouse may be required to sign either the security instrument or documentation (usually, the mortgage/deed of trust, Truth-In-Lending and Notice of Right to Cancel) evidencing that he or she is relinquishing all rights to the property. If the non-purchasing spouse executes the security instrument for such reasons, he or she is not considered a borrower for our purposes and need not sign the loan application.

Where there are non-purchasing spouses who sign security instruments relinquishing their rights to the property pursuant to applicable state laws, these non-purchasing spouses do not have to sign the mortgage note. Signing the security instrument for such purposes does not make the non-purchasing spouse a co-borrower.

Except for the obligations specifically excluded by state law, the debts of the non-purchasing spouse must be included in the borrower's qualifying ratios if the borrower resides in a community property state, or if the property to be insured is located in a community property state. Although the non-purchasing spouse's credit history is not to be considered a reason for credit denial, a credit report that complies with the VA requirements must be obtained for the non-purchasing spouse in order to determine the debt-to-income ratio / residual income.

Living Trusts

For purchase transactions, MMI does not underwrite or purchase loans titled in a Living Trust. For refinance transactions where the title to the subject property is currently held in a Living Trust, additional conditions may apply. Please contact your MMI Account Executive for details.

Borrowers Age

There is no maximum age limit for a borrower. The minimum age is 18.

Debt-to-Income Ratios / Qualifying Ratios

The VA qualifies the Veteran borrower on a single ratio (no housing ratio), as well as residual income. Residual income is the balance available for family living expenses after deducting income and social security taxes, debts, job related expenses, obligations, and monthly shelter expenses (maintenance and utility costs) from the borrower's income. Loans not approved through DU must have a maximum 41% debt-to-income ratio (DTI), unless significant compensating factors are present. If the DTI exceeds 41%, residual income must exceed the guideline by at least 20% (regardless of AUS approval), or a second level signature is required for approval (the balance available for family support must exceed the guideline by 120%). See [Qualifying Ratios and Residual Income Tables](#).

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Compensating Factors

Compensating factors that may be used to justify an approval of a mortgage loan with ratios exceeding the benchmark guidelines are listed below. Any compensating factors used to justify mortgage approval must be supported by documentation and listed on the Loan Analysis Worksheet (VA Form 26-6393):

- The borrower has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the new mortgage over the past 12-24 months, with little or no increase in monthly shelter expense.
- The borrower makes a large down payment (ten percent or more) toward the purchase of the property.
- The borrower has demonstrated an ability to accumulate savings and a conservative attitude toward the use of credit.
- Previous credit history shows that the borrower has the ability to devote a greater portion of income to housing expenses.
- The borrower receives documented compensation or income not reflected in the effective income, but directly affecting the ability to pay the mortgage, including food stamps and similar public benefits.
- There is only a minimal increase in the borrower's housing expense.
- The borrower has substantial documented cash reserves (at least 3 months worth) after closing. In determining if an asset can be included as cash reserves or cash to close, the asset must be liquid or readily convertible to cash, and can be done so, absent retirement, death, or job termination (only 60% of the vested balance of a 401(k) / retirement account may be used). Funds borrowed against these accounts may be used for loan closing but are not to be considered as cash reserves. Assets such as equity in other properties and the proceeds from a cash-out refinance are not to be considered as cash reserves. Gift funds that remain in the borrower's account following closing, subject to proper documentation, may be considered as cash reserves when the loan application is scored through TOTAL Scorecard.
- Conservative use of consumer credit / minimal credit user.
- Long-term employment
- The existence of a large equity position in refinance loans.
- High Residual Income.
- The borrower has substantial non-taxable income (if no adjustment was made previously in the ratio computations and the income was not "grossed up").
- The borrower has potential for increased earnings, as indicated by job training or education in the borrower's profession.
- The home is being purchased as the result of relocation of the primary wage earner, and the secondary wage earner has an established history of employment (yet has not secured new employment), is expected to return to work, and reasonable prospects exist for securing employment in a similar occupation in the new area. The availability of such possible employment must be documented in the loan file.

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Automated Underwriting Systems / Desktop Underwriter

Approve/Eligible Risk Classification

If the AUS using DU rates the mortgage loan application as an Accept or Approve, based on the analysis of the credit and capacity to repay and certain other loan characteristics, the loan is eligible for VA guarantee provided:

- The data entered into the AUS is true, complete, properly documented, and accurate; and
- The entire loan package meets all other VA requirements (except for those specifically not required because the loan was evaluated by an AUS). VA requires adherence to all eligibility rules and the documentation requirements described elsewhere in the Fannie Mae Guide to Underwriting with DU and the VA Lenders Handbook.

Approve/Ineligible Recommendation

The AUS may also provide Approve/Ineligible recommendations. Loans receiving this recommendation have been determined to have met VA's threshold but do not meet certain VA eligibility requirements. The AUS findings will provide detailed information advising why the loan did not meet VA's eligibility requirements, such as: loan amount exceeds the VA maximum, insufficient funds for closing, etc.

Loans that receive a recommendation of Approve/Ineligible may still be eligible for VA guarantee. To achieve eligibility status, we must analyze the findings report and determine that the reason for the ineligibility is one that can be resolved in a manner complying with VA underwriting requirements. Loans that receive a recommendation of Approve/Ineligible will receive the benefit of all other Accept or Approve documentation and credit policy revisions.

The broker may also need to correct the issue(s) that caused the loan to be ineligible and resubmit the loan to attempt to obtain an Accept/Approve recommendation, such as when a mortgage amount exceeds statutory limits.

Refer/Eligible Classification

MMI must conduct a manual underwriting review according to VA requirements for all loan applications that generate a Refer rating. The MMI underwriter must determine if the borrower is creditworthy in accordance with VA standard credit policies and requirements. It is VA policy that no borrower will be denied a VA-guaranteed mortgage loan solely on the basis of a risk assessment generated by the AUS.

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System Overrides and Manual Downgrades

A system override and/or manual downgrade of an Accept/Approve to a Refer classification may be required if a particular loan application variable is revealed during loan processing.

A system override occurs when a loan application variable triggers a requirement (a "review rule") that an underwriter review the loan file. A manual downgrade becomes necessary if additional information, not considered in the AUS decision, affects the overall insurability or eligibility of a mortgage otherwise rated as an Accept or Approve. Both system overrides and manual downgrades may be triggered by inaccuracies in credit reporting, by eligibility issues, when a casefile cannot be documented according to the AUS Findings, and for other reasons including the unlikely failure of the AUS to recognize a derogatory credit variable. Unless specifically permitted to continue to use the Accept/Approve documentation class, such as following a favorable resolution of a credit issue due to an error in reporting, MMI must document as a Refer risk class and is accountable for the credit and ratio warranties on these loans. MMI is required to manually downgrade the loan to a Refer under any of the following conditions:

Federal Eligibility

Certain individuals may not be eligible for Federal benefits due to delinquent Federally-related obligations or actions taken by a Federal government agency. If a borrower is discovered to be ineligible due to any of the conditions described below, the lender must downgrade the loan to a Refer status (if the AUS does not do so) and determine what actions—if any—may be taken to allow the borrower to qualify for the mortgage. If it is determined that the information originally relied on to determine a borrower to be ineligible was erroneous, the lender may document the file accordingly and if the loan application is rated as an Accept/Approve, use the credit waivers and reduced documentation accordingly.

Delinquent Federal Debt

If the borrower, as revealed by public records, credit information, or HUD's Credit Alert Interactive Voice Response System (CAIVRS), is presently delinquent on any Federal debt, the borrower is not eligible for a VA loan.

CAIVRS

If CAIVRS indicates a Federal delinquency, default, claim payment, or lien, the borrower is not eligible for additional Federally-related credit.

Suspended and Debarred Individuals

A borrower suspended, debarred, or otherwise excluded from participation in the Department's programs is not eligible for a VA mortgage. Both the General Services Administration (GSA) "List of Parties Excluded from Federal Procurement and Non-Procurement Programs" and HUD's Limited Denial of Participation (LDP) list are available through the FHA Connection.

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Credit Issues

Previous Mortgage Foreclosure

A borrower whose previous residence or other real property was foreclosed on or has given a deed-in-lieu of foreclosure within the previous three years is generally not eligible for an insured mortgage. We may, with documented exceptions, continue processing and manually underwrite the loan application. Providing the foreclosure was completed at least three years previously and the risk-classification from the AUS is an Accept/Approve, no further documentation regarding the foreclosure is required.

Mortgage History

Late mortgage payments during the most recent 12 months consisting of greater than 1x30 days late on a purchase or a rate/term refinance, or greater than 0x30 on a cash out refinance or an AUS recommendation of Refer.

Bankruptcy

Both Chapter 7 liquidations and Chapter 13 bankruptcies discharged within two years of loan application require a referral to an underwriter and compliance with the instructions regarding bankruptcies described in the VA Lender's Handbook. A borrower whose bankruptcy has been discharged less than one year is not eligible for a VA guaranteed mortgage. Providing the bankruptcy was discharged at least two years previously *and* the risk-classification from DU is an Accept/Approve, no further documentation regarding the bankruptcy is required.

Disputed Accounts

If the credit report reveals that the borrower is disputing any credit accounts or public records, the mortgage application must be referred to a VA underwriter for review.

Upfront Disclosure Policy

At the time of loan submission, MMI requires evidence that initial disclosures were delivered to the borrower within compliance. The date indicated on the disclosures must reflect they were prepared / delivered in compliant timeframes. The broker must submit copies of all VA, Federal, state, and local disclosures which will be monitored on every transaction. MMI complies with Federal, state, and local policies and procedures such as Fair Housing, ECOA, SAFE Act, RESPA, MDIA, etc.

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Underwriting Status / Decision

Pre-Qualification

1003 has been uploaded or loan has been locked (no underwriting package has been submitted).

Incomplete

Insufficient documentation was submitted for the loan file to be submitted to underwriting

Submitted

Loan package has been received, 1003 has been uploaded, and loan has been submitted to an underwriter.

Suspended

Crucial documentation was missing from the submission for the underwriter to render a sound decision.

Approved with Conditions

Underwriter has approved the loan with conditions which need to be met before the loan is cleared to close.

Withdrawn

Loan file was withdrawn by the borrower or the broker.

Declined

A loan is declined only after all alternatives are explored. MMI may make recommendations or offer a counter proposal regarding the terms and conditions required for loan approval.

Clear to Close

All prior to closing conditions have been met and cleared by the underwriter, and loan is ready to close. All "At Closing" or "Prior to Funding" conditions must be forwarded to MMI prior to funding for underwriter approval or with the closed loan package as noted on the MMI Underwriting Report "Conditions to be Cleared at Closing".

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