

05-21-2019

Veterans Affairs (VA) Handbook Changes: Overlay and Helpful Hints

EFFECTIVE DATE: 05-22-2019

Please be advised that First Guaranty Mortgage Corporation is implementing an overlay specific to the Department of Veterans Affairs (VA) requirement stated in Chapter 4 “new”, Topic 2.f “Borrowers Employed for Less than 12 Months”. This is effective for applications taken on or after Wednesday, May 22, 2019.

When a borrower has an offer letter (or employment contract) that begins after closing and paystubs are not available, the following items are required:

- Offer letter must be non-contingent;
- Employment must begin within 60 days of the Note Date; and
- Applicant(s) must have sufficient liquid reserves to cover PITIA and other monthly obligations through receipt of first paycheck.

Below are helpful hints to provide clarity on some of the Handbook changes. These were developed through conversations with the VA during the VA Lender’s Convention and/or through email exchanges with the VA.

Chapter 4 “new”:

- Electronic Verification of Employment and Assets
 - Topics 2 and 4 state this is acceptable.
 - The Accept/Approve Documentation Classification in Topic 8 requires paystubs covering one full month of employment, W2’s in certain situations, and bank statements/VOD.
 - Per the VA, the requirements on the AUS findings must be followed.
- Commission Income
 - Continue to reference [VA Circular 26-19-9](#) which was published after the revised chapter.
- Residual Income -- Withholdings and Income Taxes
 - The number of withholdings must be based on the actual IRS withholding table ([IRS Form W-4](#)). Do not take withholdings directly from the paystub.

- The federal and state calculations for taxes can be calculated using [Paycheck City](#) (which also has a W4 calculator).
- Child Care Expenses
 - Verify child care expenses through the age of 11 years.
- Cash Required for Closing
 - The borrower(s) must have sufficient cash assets to cover: Any closing costs, pre-pays, or discount points which are the borrower's responsibility and are not financed into the loan, and/or the difference between the sales price and the loan amount, if the sales price exceeds the reasonable value established by VA (i.e. negative equity).
 - The <4% requirement for funds to close has been removed from the Documentation Requirements section in Topic 8.
- Community Property States
 - For debts such as judgments and unpaid collection accounts, lenders should consider the Veteran's capacity to address the debt(s).
 - Develop the facts surrounding any unsatisfied judgments on the spouse's credit report, such as where the judgment was filed and whether the parties were married to one another at the time and secure a competent legal opinion whether the judgment may become a lien against the property.
- Collections
 - While VA does not require that collection accounts be paid-off prior to closing if the borrower's overall credit is acceptable, an underwriter must address the existence of the collection account(s) with an explanation on VA Form 26-6393, *Loan Analysis*, for excluding the negative credit history they represent.
 - If the collection account is listed on the credit report with a minimum payment, then the debt should be recognized at the minimum payment amount.
 - Per the VA, this does not include when the credit report shows the outstanding balance as the payment amount.
- Automated Underwriting – Rental History for Refer
 - Rental verification has increased from 12 months to 24 months.
 - Note that FGMC will not accept a private VOR.

Chapter 5 "new":

- Certificate of Eligibility (COE)
 - The COE must be obtained prior to the appraisal order.
 - WebLGY has been updated to ensure compliance.
- Active Duty Servicemembers

- Must be counseled by the loan originator using [VA Form 26-0592](#), Counseling Checklist for Military Homebuyers.
- The active duty Veteran's and lender's signature on the form signifies counseling has been completed.

Chapter 7 "new":

- Construction/Permanent Home Loans
 - [VA Circular 26-18-7](#) was not incorporated into the new Handbook—must reference this Circular and the instructions for ordering the LIN to distinguish between a "new construction purchase" and "cash-out refinance".
- Loans for Alterations and Repairs
 - [VA Circular 26-18-6](#) was not incorporated into the new Handbook—must reference this Circular when reviewing a Loan for Alterations and Repairs.

Please note that these are highlights only; FGMC strongly encourages all business partners to consult the Handbook when originating a VA loan file.

Please reach out to your Account Executive with any questions or concerns.

As always, thank you for your continued business and partnership.