VA standard balance product

Documentation Requirements	All loans must meet standard VA loan documentation and qualification requirements VA Lender Handbook is located at this link: https://benefits.va.gov/warms/pam26_7.asp
Exceptions	Exceptions to guideline requirements will be made on a case-by-case basis with Sr. management approval

Owner Occupied Only 600 Minimum FICO	**Property Type**	**Purchase**	**Cash Out LTV's/CLTV's**
	1-4 Unit	Purchase 100%	90%
	1-4 Unit	Purchase 100%	90%
	Manufactured- 600 score	Purchase 100%	N/A

Terms/Product	• Fixed: 30,25,20 and 15 Yr. only, VA 5/1 and 3/1 Arm
VA One Time Close product	• Credit Score requirement is 600 • Manufactured Homes is 600 • 30-year term • 120-, 180-, 270-, and 360-day terms
3rd Party Processing Services	• If utilizing a 3rd party for processing services- The loan must be locked and submitted under the Retained Product

Underwriting	• All loans are run through DU or LP with AUS approval
	• Manual Underwrite requires management review (when AUS is Approve/Ineligible or Refer). Max DTI is 41%.
	• All loans require a signed 4506c
	• CNC will require a VOE - (required on most/all VA loans)
	• Most recent 2 months bank statements are required.
	• Verify a minimum of 2 years employment.
	• If the applicant has been employed by the present employer less than 2 years:
	    ▪ Verify prior employment plus present employment covering a total of 2 years,
	    ▪ Provide an explanation of why 2 years' employment could not be verified,
	    ▪ Compare any different types of employment verifications obtained (such as, Verification of Employment (VOE), pay stubs, and tax returns for consistency), and
	    ▪ Clarify any substantial differences in the data that would have a bearing on the qualification of the applicant.
	• Verbal Verification of employment is required prior to closing
	• Cash out loans are not permitted in Texas (FHA)
	• Resale-deed restrictions are not permitted
	• Borrower spouse is the only co-borrower allowed
	• Manual approvals are very rare and case by case

Credit Score	• 600 - Lower of 2 or Middle of 3 repositories.

Retention of Current Principal residence	• The borrower must provide an executed lease, evidence of market rent is required • Evidence of deposit of first month's rent or security deposit evidence is required. • The borrower must have 6 months (PITI) cash reserves. (documenting equity of departure residence is not required) • If reserves cannot be validated, then a 30% equity position in departure residence is required. • Rent can only offset the departing residence PITI
Manufactured Housing (Multi wide Only)	• Gift of Equity not allowed on Manufactured Homes • 10 acres max • AUS approval required. No Manual Underwrites • Property must meet HUD/VA guidelines

Seasoning for a Refinance	• Effective with commitments issued **on or after March 1, 2018**, Click n' Close, Inc. is aligning with Ginnie Mae's seasoning requirements announced in Ginnie Mae APM 17-06 and VA Circular 26-19-22
	• Calculating Loan Seasoning. The due date of the first payment is used to determine loan seasoning. A loan is considered seasoned if both of the following conditions are met as of the date of loan closing:
	  o The due date of the first monthly payment of the loan being refinanced is 210 days or more prior to the closing date of the refinance loan; and
	  o Six consecutive monthly payments have been made on the loan being refinanced.
	• Example: The loan being refinanced closed on March 8, 2019. The first payment is due May 1, 2019. If the Veteran makes six consecutive monthly payments, the loan being refinanced will be seasoned on November 27, 2019.

Seller Concessions	• Seller concessions limited to maximum 4% of the lower of the sales price or appraised value. • Seller can pay all closing costs
Certificate of Eligibility	• 25% minimum coverage • GNMA coverage must be in force from VA eligibility on COE or additional principal payment must be made to equal 25% coverage

Down Payment and Reserves	• The applicant or spouse must have sufficient cash to cover:
	  ▪ any closing costs or points which are the applicant's responsibility and are not financed in the loan
	  ▪ the down payment
	  ▪ The difference between the sales price and the loan amount, if the sales price exceeds the reasonable value established by VA.
	• VA does not require the applicant to have additional cash to cover a certain number of mortgage payments, unplanned expenses, or other contingencies.
	• However, the applicant's ability to accumulate liquid assets and the current availability of liquid assets for unplanned expenses should be considered in the Overall credit analysis.
	• **Verification requirement**
	  ▪ Verify all liquid assets owned by the applicant or spouse to the extent they are needed to close the loan. In addition, verify any liquid assets that may have a bearing on the overall credit analysis; that is, significant assets.
	  ▪ Use original or certified true copies of the applicant's last two bank statements, OR
	  ▪ the borrower's bank statements available to them by Internet or Faxed from the depository directly to the lender. In cases where the lending institution uses Internet based verifications, ensure the URL appears on the document.
	  ▪ Verifications must be no more than 120 days old for automatically closed loans, this means the date of the deposit verification is within 120 days of the date the note is signed.

Mortgage/Rent History	• Follow AUS findings. 12-month - VOR/Rent history required on manual underwrites.
Occupancy	• Owner Occupied Primary residence only 1-4 unit
Debt to Income Ratio	• Follow AUS findings. VA REQUIREMENT – Regardless of FICO and AUS findings. The loan must meet the residual income requirement per VA for any DTI exceeding 41%. • The residual income should be reflected in the AUS findings with family size accurately entered. • Fourteen cents ($ 14 cents) a square foot is the current accurate calculation for maintenance/ utilities to be entered into the AUS findings.
Bankruptcy	• Minimum 2 Years
Foreclosure	• Minimum 2 Years completed. Seasoning based off the property transfer date/sheriffs sale.
Property Types	• Single Family Attached and Detached, Condo, PUD and Manufactured Homes • Manufactured properties are limited to 10 acres
Condominium	• Condominium must be currently approved by VA only
Funding Fee	• Current Funding Fee table- please click on this link below- page 21 • https://benefits.va.gov/WARMS/docs/admin26/handbook/ChapterLendersHanbookChapter8.pdf • Exempt Veterans: Exempt Veterans. A Veteran may be exempt from paying a VA Funding fee under certain circumstances: To document this exemption, a Verification of VA Benefits (26-8937) must be completed by the VA, or disability award letter. Veteran is receiving VA compensation for a service-connected disability of at least 10%. Surviving spouse of a Veteran who dies in service from a service connected disability.
Cash out	• 90% LTV (minimum FICO of 600 required and AUS approval) • Max CLTV is 90% LTV which includes Funding Fee.
Appraisal	• VA LAPP 1004 Appraisal is required. • Approved VA clients should request a VA LAPP appraisal through the VA Portal (webLGY)
Escrows	• Escrow of Tax, Insurance and MIP are required on all loans.
Property Flips	• Flip transactions are eligible.
Number of Financed Properties	• Borrower may own additional property and have more than 1 VA loan but must have sufficient entitlement for new VA loan
Non Arm's Length Transactions	• Allowed – must be noted on sales contract and appraisal
IRS Tax Transcript and W2 Transcript Policy	• Transcripts are not required when all income information used to decision a loan is made exclusively of wage earner income reported on a W-2 and /or fixed income reported on a 1099 (Ex. Social Security or VA benefits), unless required by AUS. • Self-employed and rental income will require tax transcripts • Instances where Tax Transcripts would be required regardless of income and employment sources. ▪ Handwritten paystubs are used as verification of income ▪ Borrower(s) is employed by a family member ▪ Relationship between the parties ▪ Borrower and Seller are related ▪ Borrower is employed by the Third Party Originator Company ▪ the underwriter's or QC discretion, if needed to verify income calculations or to address red flags ▪ If Tax returns are delivered with the file at time of application

VA IRRRL Guidelines	• Please reference VA Circular: Circular 26-19-22 • *<u>Action.</u> To receive and retain the full amount of VA's guaranty, an IRRRL must meet the requirements of the Act. See generally 38 U.S.C. § 3709. In cases of IRRRLs where the application was initiated on or after May 25, 2018, and before the date of this Circular, and such loans did not meet the recoupment or net tangible benefit standards recited below, lenders may take steps to cure the noncompliance without VA's prior approval, provided that such action results in no costs to the Veteran. In such cases, lenders should keep detailed records of these actions, allowing for VA's examination, e.g. in cases where VA conducts loan reviews or lender site inspections. VA has identified certain IRRRLs that did not meet the statutory standards and will be contacting the relevant lenders to inquire about their efforts to cure the noncompliance. VA is also considering whether other actions are appropriate, e.g. withdrawal of authority to close loans on the automatic basis. Due to the nature of the loan seasoning requirement, remedial action is not possible in cases where the loan that was refinanced was not properly seasoned. The authority for lenders to take the remedial action described above without VA's prior approval does not apply in cases of loans for which applications were initiated on or after the date of this Circular.* *a. <u>Fee Recoupment</u>. Recoupment describes the length of time it takes for a Veteran to pay for certain fees, closing costs, and expenses that were necessitated by the refinance loan. The recoupment standard applies to all IRRRLs. This includes, but is not limited to, IRRRLs where the principal balance is increasing, the term of the loan is decreasing, or where the loan being refinanced is an adjustable-rate mortgage (ARM).* *(1) The lender, any broker or agent of the lender, and any servicer or issuer of an IRRRL, must ensure, and certify to VA, that:* *(a) For an IRRRL that results in a lower monthly principal and interest (PI) payment, the recoupment period of fees, closing costs, and expenses (other than taxes, amounts held in escrow, and fees paid under chapter 37 (e.g., VA funding fee collected under 38 U.S.C. § 3729)), incurred by the Veteran, does not exceed 36 months from the date of the loan closing.* *(b) For an IRRRL that results in the same or higher monthly PI payment, the Veteran has incurred no fees, closing costs, or expenses (other than taxes, amounts held in escrow, and fees paid under chapter 37 (e.g., VA funding fee collected under 38 U.S.C. § 3729)).* *(2) Lenders must upload the following documentation during the Loan Guaranty Certificate (LGC) process to certify that fee recoupment has been met:* *(a) If the recoupment period shown on the final loan disclosure outlined below in paragraph 3.d.(2) is 36 months or less, the lender may upload this disclosure.* *(b) If the recoupment period shown on the final loan disclosure outlined below in paragraph 3.d.(2) is more than 36 months, the lender must provide documentation showing the recoupment calculation outlined in paragraph 3.a.(3).* *(c) For an IRRRL that results in the same or higher monthly PI payment, the lender should submit to VA evidence that the Veteran has incurred no fees, closing costs, or expenses (other than taxes, amounts held in escrow, and fees paid under chapter 37).* *(3) Calculating Recoupment. Recoupment is calculated by dividing all fees, expenses, and closing costs, whether included in the loan or paid outside of closing (i.e., an appraisal fee), by the reduction of the monthly PI payment. The VA funding fee, escrow, and prepaid expenses, such as, insurance, taxes, special assessments, and homeowners' association (HOA) fees, are excluded from the recoupment calculations. See Exhibit B for more specific instructions and examples including IRRRLs with Energy Efficient Mortgage (EEM) improvements.* *b. <u>Net Tangible Benefit</u>. A loan that provides a net tangible benefit (NTB) means that it is in the financial interest of the Veteran. The following NTB standards are required under 38 U.S.C. 3709:*

VA IRRRL Guidelines	*(1) Fixed Rate to Fixed Rate IRRRLs. In cases where the loan being refinanced has a fixed interest rate and the refinance loan will also have a fixed interest rate, the refinance loan's interest rate must be not less than 0.50 percent (50 basis points) lower than the interest rate of the loan being refinanced. For example, if the interest rate of the loan being refinanced is 3.75 percent (fixed), then the interest rate of the refinance loan may not be greater than 3.25 percent (fixed).* *(2) Fixed Rate to Adjustable Rate (Fixed-to-ARM) IRRRLs. In cases where the loan being refinanced has a fixed interest rate and the refinance loan will have an adjustable interest rate, the refinance loan's interest rate must be not less than 2 percent (200 basis points) lower than the interest rate of the loan being refinanced. For example, if the interest rate of the loan being refinanced is 3.75 percent (fixed), then the initial interest rate of the refinance loan may not be greater than 1.75 percent (adjustable).* *(a) In Fixed-to-ARM cases, discount points may be added to the principal loan amount of a Fixed-to-ARM refinancing loan only if one of the following circumstances exist:* *(i) The lower interest rate is not produced solely from discount points. In other words, the interest rate environment is such that some portion of the lower interest rate on the refinancing loan is the result of favorable changes in the market as compared to the Veteran's current rate.* *(ii) The lower interest rate is produced solely from discount points (i.e., the interest rate environment is such that a lower interest rate cannot be achieved without charging discount points); discount points equal to or less than one discount point are added to the loan amount, and; the resulting loan balance after any fees and expenses maintains a loan-to-value (LTV) ratio of 100 percent or less.* *(iii) The lower interest rate is produced solely from discount points (i.e., the interest rate environment is such that a lower interest rate cannot be achieved without charging discount points); more than one discount point is added to the loan amount, and; the resulting loan balance after any fees and expenses maintains an LTV ratio of 90 percent or less. As a reminder, while the Veteran may pay any reasonable amount of discount points in cash, no more than two discount points can be included in the loan amount of an IRRRL. See 38 C.F.R. § 36.4307(a)(4)(i).* *(b) Valuation for Fixed-to-ARM IRRRLs. A new appraisal will enable lenders to determine the LTV for Fixed-to-ARM IRRRLs. It is VA's interpretation that such appraisals need not be ordered through VA's appraisal system. Lenders can use their appraisal management and assignment process to complete a property value determination. As a reminder, the Veteran may only be charged a reasonable and customary amount, and only charged for one appraisal. For VA audit purposes, any appraisal report and invoice should be included in the loan file. Loan-to-value is calculated by dividing the total loan amount by the value determined in one of the methods listed below. Acceptable appraisal reports to determine property value include:* *(i) Exterior-Only Inspection Residential Appraisal Report (Fannie Mae 2055)* *(ii) Uniform Residential Appraisal Report (Fannie Mae 1004)* *(iii) Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Fannie Mae 1075)* *(iv) Individual Condominium Unit Appraisal Report (Fannie Mae 1073)* *(v) Industry accepted appraisal reports for manufactured and multi-unit homes* *c. <u>Loan Seasoning</u>. Loan seasoning refers to the age of the loan being refinanced. If the loan being refinanced is not seasoned on or before the date that the refinance loan closes, VA cannot guarantee the refinance loan.* *(1) Calculating Loan Seasoning. The due date of the first payment is used to determine loan seasoning. A loan is considered seasoned if both of the following conditions are met as of the date of loan closing:* *(a) The due date of the first monthly payment of the loan being refinanced is 210 days or more prior to the closing date of the refinance loan; and* *(b) Six consecutive monthly payments have been made on the loan being refinanced.*

VA IRRRL Guidelines Cont.	*(2) Example: The loan being refinanced closed on March 8, 2019. The first payment is due May 1, 2019. If the Veteran makes six consecutive monthly payments, the loan being refinanced will be seasoned on November 27, 2019.* *(3) Audit Process. During VA's audit process, VA will look for evidence confirming that the loan being refinanced was properly seasoned. Such evidence could include, for example, a payment history/ledger documenting all payments, or a credit bureau supplement that clearly identifies all payments made in that timeframe.* *d. Disclosure. VA interprets the Act as requiring that lenders make certain disclosures when originating IRRRLs. Lenders should twice present the Veteran with a comparison of the refinance loan to the loan being refinanced. The loan comparison statement will provide the Veteran with up-front information about the overall cost of the refinance, thereby helping the Veteran make an informed decision about whether to proceed with the refinance. See Exhibit C for a sample comparison statement.* *(1) Timing of Disclosures. The lender should present the Veteran with the comparison statement within 3 business days from the initial date of the loan application and again at loan closing. For example, the Veteran completed/submitted the loan application to the lender on August 5, 2019. The lender must present the comparison statement to the Veteran no later than August 8, 2019.* *(2) Content. Please refer to Exhibit C for a sample comparison statement. The loan statement must include the following information relating to the loan being refinanced and the refinance loan, i.e. the IRRRL: VA Loan Identification Number (LIN); Loan Amount; Loan Term; Monthly Payment; Interest Rate; and Borrower Name(s). The statement must also show the recoupment period (in months) for all fees, expenses, and closing costs, (including taxes, amounts held in escrow, and fees paid under chapter 37 such as the VA funding fee), whether included in the loan or paid outside of closing.* *Note: The recoupment calculation for the purposes of the comparison statement differs from the recoupment calculation required under 38 U.S.C. § 3709(a) and discussed above. Namely, the comparison statement will gauge how the Veteran's payment of taxes, amounts held in escrow, and fees paid under chapter 37 affect the cost of the new refinance loan. As discussed above, the Act excludes such items from the 36-month recoupment calculation that affects whether VA can guarantee a refinance loan. To complete the recoupment calculation for the purposes of the comparison statements:* *(a) Add the following items from the Loan Estimate (initial disclosure) or Closing Disclosure (final disclosure): origination charges, services you cannot shop for, services you can shop for, taxes, other government fees, and the VA funding fee.* *(b) Subtract any lender credits.* *(c) Divide that amount by the decrease in monthly PI payment. Please note that the monthly PI payment is calculated using the total loan amount, including any financed VA funding fee and EEM improvements.* *Note: If the IRRRL results in the same or increased monthly PI payment, the lender should still complete paragraphs (a) and (b) and present the Veteran with the total costs associated with the IRRRL.* *(3) Veteran Certification. The Veteran must communicate to the lender that he/she received the comparison statements, e.g. via written letter, e-signature, email from the Veteran certifying receipt, system time/date stamp where the Veteran certified receipt, etc. For example, on September 1, 2019, a Veteran could communicate to the lender that he/she received the comparison statements on both occasions, e.g. on August 1, 2019 (one day after submitting the loan application) and August 20, 2019 (date of closing). Lenders should retain evidence of such communications in the loan file.*

VA IRRRL Guidelines Cont.	**Lender Instructions for Determining Value for VA IRRRLs** • According to The Protecting Veterans from Predatory Lending Act of 2018, a loan-to-value determination must be made when discount points are charged. When discount points are not charged, a value determination is not required. These appraisals will not be ordered through WebLGY or the VA Fee Panel. Lenders should use their appraisal management and assignment process to complete a value determination. • Acceptable forms of appraisal reports are: 1. Exterior-Only Inspection Residential Appraisal Report (Fannie Mae 2055) 2. Uniform Residential Appraisal Report (Fannie Mae 1004) 3. Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Fannie Mae 1075) 4. Individual Condominium Unit Appraisal Report (Fannie Mae 1073) 5. Other industry accepted appraisal reports for manufactured and multi-unit homes • If lenders require the Veteran to pay for the cost of the appraisal, the cost must be included as part of the recoupment cost. The Veteran may only be charged a reasonable and customary amount, and only charged for one appraisal. • Loan-to-value is calculated by dividing the VA base loan amount (excluding the funding fee, if any) by the value determined in one of the methods listed above. • After obtaining the VA Loan Identification Number (LIN), lenders have the ability to upload the appraisal report in WebLGY. If the appraisal is not uploaded prior to loan guaranty, lenders must upload it to the correspondence link of the VA LIN in WebLGY • Lenders must pay close attention at the time of guaranty to WebLGY messages. Loans that do not meet the requirements of The Protecting Veterans from Predatory Lending Act of 2018, will not be eligible for guaranty. WebLGY will prevent guaranty of loans that do not meet recoupment, net tangible benefit, and loan seasoning requirements. VA will be performing file audits to ensure that lenders are complying with the new law. **Items needed for the VA IRRRL submission package** • Verbal VOE is required • Prior loan validation printout from web LGY application on VA Information Portal • VA Request for Determination of Eligibility (VA 26-1880)-COE (only if simultaneous restoration of eligibility) • VA Counseling Checklist for Military Homebuyers (VA 26-0592) (if applicant is active duty) • HUD/VA Addendum to URLA (VA 26-1802a) • VA Assumability Disclosure (VA 26-8978) • VA Rights of VA Loan Borrowers (VA 26-8978) • Federal Collection Policy (VA 26-0503) • VA Loan Comparison signed by veteran and spouse verifying net tangible benefit and maximum 36 months recoupment of all fees and charges financed as part of the loan • VA Statement of Nearest Living Relative • Interest Rate Reduction Refinancing Loan Worksheet (VA 26-8923) NOTE: This form must be used to calculate the maximum loan amount; the maximum loan amount is the existing VA loan balance(s) plus the following: ▪ Including any late payments and late charges, plus

VA IRRRL Guidelines Cont.	▪ The cost of any energy efficiency improvements, and ▪ The VA Funding Fee ▪ Any IRRRL that includes delinquent payments in the loan amount must be submitted for prior approval, even when a lender has automatic authority. Mid America will not approve loans that are delinquent or require prior approval. • Clear CAIVRS • Full tri-merged credit bureau for all borrowers • Copy of Note being refinanced • Payoff demand for previous VA loan being refinanced • Current Payment Coupon • Photo ID and Social Security Card (all parties) • LDP/GSA for all parties ▪ The maximum loan term is the original term of the VA loan being refinanced plus 10 years, but not to exceed 30 years and 32 days. (EXAMPLE: old loan was made with a 15 year term; term of the new loan cannot exceed 25 years) ▪ The principal and interest payment on the IRRRL must be less than the principal and interest payment on the loan being refinanced unless one of the following exceptions apply: ▪ The IRRRL is refinancing an ARM; ▪ The term of the IRRRL is shorter than the term of the loan being refinanced; or ▪ Energy efficient improvements are included in the IRRRL ▪ A significant increase in the veteran's monthly payment may occur with any of the following three exceptions, especially if combined with one or more: ▪ Financing of closing costs; ▪ Financing of up to two discount points; or ▪ Financing of the funding fee and/or higher interest rate when an ARM is being refinanced ▪ IF the monthly payment (PITI) increases by 20% or more, the lender must: ▪ Determine that the veteran qualifies for the new payment from an underwriting standpoint; such as determine whether the veteran can support the proposed shelter expense and other recurring monthly obligations in light of income established as stable and reliable; and include a certification that the veteran qualifies for the new monthly payment which exceeds the previous payment by 20% or more ▪ The IRRRL must replace the existing VA loan as the first lien on the same property. Any second lien- holder would have to agree to subordinate to the first lien holder ▪ Veteran cannot pay off liens other than existing VA loan from IRRRL proceeds ▪ Veteran or surviving co-obligor spouse must still own the property ▪ Generally, the party or parties obligated on the original loan must be the same on the new loan unless divorce or deceased. Veteran must credit qualify for new loan ▪ At time of loan application, the veteran/borrower must have made at least 6 payments on the VA guaranteed mortgage being refinanced with no late payments ▪ Borrower/Veteran cannot be in bankruptcy • Collections/Charge-offs not required to be paid off unless they affect lien position • Outstanding judgments and liens must be paid if they affect title • Underwriter must verify that borrower is employed and has income at time of application • Verbal VOE required at time of underwriting • Signed and Dated IRS 4506T will be requested prior to closing – do not order transcripts

VA IRRRL Guidelines Cont.	• Veteran MUST sign a statement (VA Loan Comparison worksheet) acknowledging the effect of the refinancing loan on the veteran's loan payments and interest rate; the statement must show the interest rate and monthly payments for the new loan versus the old loan. The statement must also include how long it would take to recoup ALL closing costs (both those included in the loan and those paid outside of closing)