

# VA CASH-OUT & RATE/TERM REFINANCE



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# VA CASH-OUT & RATE/TERM REFINANCE



<b>ELIGIBLE MORTGAGE PRODUCT &amp; TERM</b>	<b>VA Cash-Out Refinance –</b> <ul style="list-style-type: none"> <li>• 30 Year Fixed Rate</li> <li>• 5/1 ARM Margin 2.25%</li> </ul>	
<b>MAXIMUM LOAN AMOUNT/LTV</b>	<ul style="list-style-type: none"> <li>• <b>Cash Out</b> – Limited to 90% including the VA Funding Fee <ul style="list-style-type: none"> <li>❖ Over 90% LTV allowed with Corporate Investor Specific request <b>and</b></li> <li>❖ FICO Minimum of 620 <b>or</b></li> <li>❖ FICO Minimum of 680 with cash out over \$100,000</li> <li>❖ DU Approval maximum 50% DTI <b>and</b></li> <li>❖ Maximum cash out \$100,000 or maximum as specified by investor</li> <li>❖ FICO &lt; 640 allowed for Manual underwrite with 43% DTI with 3 VA Compensating Factors <b>and</b> Investor Specific Exception with Loan amounts ≤ \$424,100</li> <li>❖ FICO 640 ≥ allowed for Manual underwrite with 43% DTI with 3 VA Compensating Factors on High Balance loans</li> </ul> </li> <li>• <b>Rate/Term</b> – Limited to 100% excluding the VA Funding Fee (maximum cash out of \$500) <ul style="list-style-type: none"> <li>❖ AUS Approval with limit of 55% DTI.</li> <li>❖ FICO &lt; 640 Manual Underwrite with 45% DTI and 3 VA Compensating factors loan amount ≤ \$424,100</li> <li>❖ FICO 640 ≥ Manual Underwrite with 45% DTI and 3 VA Compensating factors for High Balance loan.</li> </ul> </li> </ul>	
<b>VA LOAN LIMITS</b>	<b>UNITS</b>	<b>LIMITS INCLUDE VA FUNDING FEE</b>
	1-4 Units	\$424,100
	1-4 Units	\$424,101 - \$699,999
	1-4 Units *	\$700,000 - \$1,000,000
	1-4 Units *	\$1,000,001 - \$1,500,000
	<ul style="list-style-type: none"> <li>• Loan amounts \$1,000,000 and above require exception from investor prior to docs</li> <li>• VA County Limits <a href="https://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx">https://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx</a></li> <li>• VA's 2017 Loan Limits are the same as the Federal Housing Finance Agency's limits- 2017 Loan Limits (Effective January 1, 2017). For purposes of determining the VA guaranty, underwriters are instructed to reference only the One-Unit Limit column in the FHFA Table "Fannie Mae and Freddie Mac Maximum Loan Limits for Mortgages Acquired in Calendar Year 2017 and Originated after 10/1/2011 or before 7/1/2007".</li> <li>• * High Balance VA loans: DTI ≤ 41% &gt; \$1,000,000 &amp; ≤ \$1,500,000 maybe eligible, subject to <u>Corporate Underwriting Approval, Investor Specific Exception &amp; INVESTOR FORM 19 REQUIRED</u></li> </ul>	

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<b>VA LOAN LIMITS CONTINUED</b>	<ul style="list-style-type: none"> <li>* VA Loans &gt; \$1,000,000 &amp; &lt;= \$1,500,000 maybe eligible subject to <u>Investor Specific Exception &amp; Investor form 19 required</u> from investor when DTI &gt; 41%.</li> <li>Underwriter to complete Investor Specific Form 19 and fax to 866-494-8905 with required documentation.</li> <li>Underwriter to add condition Investor Specific to WFB once Investor Exception has been granted.</li> </ul>
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ENTITLEMENT/GUARANTY	
LOAN AMOUNT	MAXIMUM POTENTIAL GUARANTY
< = \$45,000	50% of the loan amount
\$45,001 to \$56,250	\$22,500
\$56,251 to \$144,000	40% of the loan amount or maximum \$36,000
\$144,001 to \$424,100	25% of the loan amount or maximum \$106,025
\$424,101 to \$1,500,000	25% of the loan amount or maximum \$273,656

**Calculating the max loan amount-** PBM Maximum Loan Worksheet is required to be used to validate 25% guarantee has been met.

**Entitlement/Guaranty** – Processed Certificate of Eligibility to certify current loan is active VA Loan of record  
Guaranty is Automatic

- Exempt/Non Exempt Status
- 2-4 Units- VA only allows guarantee under 1-Unit County Limits. Equity will be required to meet 25% guarantee.

FUNDING FEE TABLE			
First Time Use	Rate	Subsequent Use	Rate
Regular Service	2.15%	Regular Service	3.3%
Reservist/Nat'l Guard	2.40%	Reservist/Nat'l Guard	3.3%

- All VA Loans require a VA Funding Fee. Exceptions may be made to veterans with service-connected disabilities and to surviving spouses of veterans who die in service or from service connected disabilities.
- Funding Fee must be financed or paid with cash in full in cash at closing. No partial payments allowed.
- Loan Amount > \$424,100 If the combined loan amount plus funding fee exceeds the county limit, then a down payment for guarantee shortfall per VA Maximum loan worksheet will be required.
- Cash-Out Refinance Worksheet required on all loans. Review VAFF Table to assure correct rate used.

<b>AGE OF DOCUMENTS</b>	<ul style="list-style-type: none"> <li>Appraisal- no older than 180 days at time of closing</li> <li>Credit - no older than 120 days at time of closing</li> <li>Income- no older than 120 days at time of closing</li> <li>Assets- no older than 120 days at time of closing</li> <li>Termite- no older than 120 days at time of closing.</li> </ul>
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**APPRAISAL  
REQUIREMENTS**

- LAPP Appraisal (VA Appraisal **ONLY**)
- NOV (Notice of Value) is valid for 6 months and FHMA form 1004MC is required for all appraisals
- UAD Compliant (Uniform Appraisal Dataset)
- Interior photos to include: kitchen, bathroom, main living area, physical deterioration if present, restoration, remodeling or renovation if present.
- Exterior photos to include: front and rear view, street scene, site features, improvements and views that would affect value.
- Small Residential Income Property Appraisal Report, Freddie Mac Form 72, Fannie Mae Form 1025, if property has two to four living units
- All loans must adhere to State and Local Property Laws (carbon monoxide, smoke detectors and lead based paint guidelines)
  - If the appraiser notes the absence of a working carbon monoxide detector and appraisal is “**Subject To**” - A 1004D will be required evidencing the completion of the requirements.
  - If the appraiser notes the absence of a working carbon monoxide detector, but appraisal reads, “**AS IS**” – a 1004D will be required as this is a health and safety issue.
  - If the appraiser does not mention the absence of a working carbon monoxide detector in the appraisal report, neither a 1004D nor a Lender’s Certification evidencing completion will be required in regards to the carbon monoxide detector.
- For loan amounts > 1,000,000, be sure to request a certified appraiser when requesting the appraiser assignment from VA.
- Regardless of loan amount, the VA guaranty plus cash/equity must be equal to at least 25% of the purchase price or Notification of Value (NOV), whichever is less, on purchases and non-IRRRL refinances.

***Unpermitted Property Additions:***

Properties with “unpermitted” structural additions are allowed under the following conditions:

- The quality of the work is described in the appraisal and deemed acceptable (workmanlike quality) by the appraiser;
- The addition does not result in a change in the number of units comprising the subject property(e.g. a 1 unit converted into a 2 unit)
- If the appraiser gives the unpermitted addition value, the appraiser must be able to demonstrate market acceptance by the use of comparable sales with similar additions and state the following in the appraisal:
  - Non-Permitted additions are typical for the market area and a typical buyer would consider the “unpermitted” additional square footage to be part of the overall square footage of the property.
  - The appraiser has no reason to believe the addition would not pass inspection for a permit.

***Termite Report/Repairs***

- All loans require a termite report and clearance (if applicable)
- Final termite reports (if clearance is issued that would be considered the final report) must be signed (not initialed) and dated as Read and Approved by veteran before funding.

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**APPRAISAL REQUIREMENTS CONTINUED**

- Termite reports require **ALL Section 1 items** to be cleared by the termite company or licensed contractor and referenced on the termite clearance prior to funding. If the clearance states items were completed by others and appear to be completed in a workman like manner, it must note the party that performed the work.
- **Section 2** items that are required to be repaired are listed in the table below. The items listed below are the most critical items, but there are other items that may require repair (i.e. health & safety, structural, misc. repairs) Section 2 items that are not listed below should be review with Corporate Underwriting for determination of repair requirements.

Section 2 Items	Requirement for Completion
Water/Sewer Connection Requirements	<ul style="list-style-type: none"> <li>• For properties serviced by individual water and/or sewer (well and/or septic), connection to public water and/or public sewer will only be mandatory when such connection is required by the local building, planning or health authorities</li> <li>• For properties where well water or septic test or certifications were required, the validity of those tests or certifications is 90 days unless the local health authority indicates otherwise</li> <li>• All NOV's issued on properties served by individual water and/or sewer systems will require NOV Item #6 to be checked only if required by the local building, planning or health authorities.</li> </ul>
Any indication of water leak or stain on ceilings	Inspected by appraiser or licensed contractor and/or repaired by licensed roofer
All other major water leaks or stains (includes hot water heater)	Inspected and repaired by licensed plumber or general contractor. The appraiser or termite company may inspect minor leaks
Loose or broken toilets	Inspected by appraiser or licensed contractor
Broken or inoperable faucets	Inspected by appraiser or licensed contractor

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<b>APPRAISAL REQUIREMENTS CONTINUED</b>	Broken or inoperable doors	Inspected by appraiser or licensed contractor
	Mold	Inspected and repaired by a licensed Mold Abatement company
	Broken or cracked windows	Repaired by licensed contractor
	Structural wood replacement or repairs	Structural wood repairs: i.e. A general or building contractor must complete removal and replacement of a patio deck, stairs, walls or beams. <b>All Wood that it is replaced or repaired must be painted.</b> Exposed wood of any kind is not acceptable. <b>The inspector must state that the wood has been primed and/or painted</b>
	<u>Cosmetic</u> wood replacement or repairs	Cosmetic wood repairs: i.e. doors, door jams, a licensed contractor, or the seller can complete the repairs. <b>All Wood that it is replaced or repaired must be painted.</b> Exposed wood of any kind is not acceptable. <b>The inspector must state that the wood has been primed and/or painted</b>
<b>ASSETS</b>	<ul style="list-style-type: none"> <li>• DU/LP requirements must be met</li> <li>• Reserves required for the following:             <ul style="list-style-type: none"> <li>○ SFR –Primary Residence no reserves required</li> <li>○ SFR- Primary Residence retained as Rental Property requires 3 months PITI reserves if rental income used to qualify. No rental income used and full PITI used to qualify no reserves required.</li> <li>○ 2-4 units = 6 months PITI reserves</li> <li>○ Rental Property per Schedule E- must have 3 months PITI reserves.</li> <li>○ Loan amounts <math>\geq</math> \$1,000,000 to \$1,500,000 require residual of \$2500 and 3 months reserves</li> </ul> </li> <li>• Gift funds can be used to pay off credit cards to qualify</li> <li>• Gift funds can be used to pay for the termite completion work on rate and term only.</li> <li>• Cash out funds should be used to pay for repairs prior to funds received by veteran at closing.</li> </ul>	

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<b>BORROWER ELIGIBILITY</b>	<p>Borrower(s) must have been obligated on the original VA Loan. Change in Mortgagors are only permitted with the proper documentation in following cases:</p> <table border="1" style="width: 100%; border-collapse: collapse; margin: 10px 0;"> <thead> <tr> <th style="width: 50%; text-align: center;">EXISTING VA LOAN</th> <th style="width: 50%; text-align: center;">NEW LOAN</th> </tr> </thead> <tbody> <tr> <td>Unmarried Vet</td> <td>Veteran and New Spouse</td> </tr> <tr> <td>Vet and Spouse</td> <td>Divorced Veteran only (Copy of 6 month cancelled checks)</td> </tr> <tr> <td>Vet and Spouse</td> <td>Veteran and New Spouse</td> </tr> <tr> <td>Veteran alone</td> <td>Different veteran who has substituted entitlement</td> </tr> <tr> <td>Veteran and spouse</td> <td>Veteran Widow/Widower 1 time Purchase.</td> </tr> <tr> <td>Veteran and non-veteran on title only</td> <td>Same (primary resident only)</td> </tr> </tbody> </table> <table border="1" style="width: 100%; border-collapse: collapse; margin: 10px 0;"> <tr> <td style="padding: 5px;">                     Veteran and Veteran single eligibility * see notes located in Underwriting Method section                 </td> </tr> <tr> <td style="padding: 5px;">                     Veteran and veteran with dual eligibility * see notes located in Underwriting Method section                     <ul style="list-style-type: none"> <li>US Citizens</li> <li>Permanent &amp; Non-Permanent Resident Aliens</li> </ul> </td> </tr> </table>	EXISTING VA LOAN	NEW LOAN	Unmarried Vet	Veteran and New Spouse	Vet and Spouse	Divorced Veteran only (Copy of 6 month cancelled checks)	Vet and Spouse	Veteran and New Spouse	Veteran alone	Different veteran who has substituted entitlement	Veteran and spouse	Veteran Widow/Widower 1 time Purchase.	Veteran and non-veteran on title only	Same (primary resident only)	Veteran and Veteran single eligibility * see notes located in Underwriting Method section	Veteran and veteran with dual eligibility * see notes located in Underwriting Method section <ul style="list-style-type: none"> <li>US Citizens</li> <li>Permanent &amp; Non-Permanent Resident Aliens</li> </ul>
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<b>CAIVRS</b>	Required for all borrowers																
<b>CREDIT REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>3 merge credit report required</li> <li>All borrowers must have a valid Social Security Number</li> <li>All borrowers must have at least (2) valid credit scores.</li> <li>If a credit report is over 45 days old at funding, a Soft-Pull credit report must be obtained (no FICOs required) to determine any changes. If there are no significant changes to the Soft-Pull Report compared to the original report, the original credit report can be used to fund the loan but <b>CANNOT</b> be older than 120 days at funding. If there are significant changes to the Soft-Pull credit, including any new debt, a new credit report must be pulled and re-submitted to DU/LP. The file must then be re-underwritten to include the new credit and DU/LP findings.</li> <li>VA requires consideration of the spouse's credit (whether or not the spouse will be personally liable on the note and whether or not the applicant and spouse choose to have the spouse's income considered.</li> <li>Non-Traditional Credit is <b>NOT</b> allowed</li> <li>All judgments must be paid in full or subject to a repayment plan with a history of timely payments.</li> </ul> <p><b>BANKRUPTCY</b></p> <ul style="list-style-type: none"> <li><b>2 Years</b> elapsed since the discharge of Chapter 7, Chapter 13 Bankruptcy or Deed in Lieu/Short sale when the borrower was not delinquent at transfer.                             <ul style="list-style-type: none"> <li>Chapter 13 discharged &lt;2 years required Corporate Exception</li> </ul> <p style="text-align: center;"><b>AND</b></p> <ul style="list-style-type: none"> <li>Paid as agreed status from chapter 13 Trustee for current term, not less than 12 months.</li> </ul> </li> </ul>																

<p><b>CREDIT REQUIREMENTS CONTINUED</b></p>	<p><b>FORECLOSURE/DEED-IN-LIEU/SHORT-SALE</b></p> <ul style="list-style-type: none"> <li>• 2 years since completion of foreclosure, deed-in-lieu/Short Sale with no lates</li> <li>• 3 years elapsed since completion of Foreclosure, Deed in Lieu/Short Sale <u>when the borrower was delinquent at time of transfer.</u></li> </ul> <p><b>Note:</b> In a case where the borrower(s) <b>initial loan application is taken before the 3 year time frame, but not less than 2 years, an Investor Specific by Corporate is required has less than 3 years, but over 2, an Investor Specific exception is required.</b></p> <ul style="list-style-type: none"> <li>• <b>Disputed accounts -</b> <ul style="list-style-type: none"> <li>○ Letter of explanation for disputed account plus copy of documentation to validate reason for dispute (i.e. LOE and copy of police report if reason was “stolen wallet or purse”)</li> <li>○ <u>Utilities not paid</u> -Letter of explanation and proof not residing at residence at the time of issue.</li> <li>○ <u>Late payment dispute-</u> Letter of explanation and proof the account was paid on time.</li> </ul> </li> <li>• <b>Collection-</b> <ul style="list-style-type: none"> <li>○ Isolated collection accounts (one or two unpaid medical or other collections) do not have to be paid off provided the credit report shows numerous satisfactory accounts.</li> <li>○ Collection accounts must be considered part of the borrower’s overall credit history and unpaid collection accounts should be considered open, recent credit</li> <li>○ Borrowers with a history of collection accounts should have re-established satisfactory credit in order to be considered a satisfactory credit risk.</li> </ul> </li> <li>• <b>Alimony-</b> <ul style="list-style-type: none"> <li>○ Can be used to either reduce income to qualify or</li> <li>○ Be counted as a liability in the debt ratio</li> </ul> </li> <li>• <b>High Balance-</b> <ul style="list-style-type: none"> <li>○ No Foreclosure, Bankruptcy or Short Sale &amp; Deed-in-Lieu in the past 7 years (if less than 7 years Investor Specific approval from Corporate required with DU approval only)</li> <li>○ No housing payment 30 days or more past due in the last 12 months</li> </ul> </li> </ul>
<p><b>DEMAND</b></p>	<ul style="list-style-type: none"> <li>• Payoff must reflect current loan balance and not more than 60 days interest. (example; closing month of May, May payment not made, interest for April &amp; May allowed on demand &amp; financed).</li> </ul>
<p><b>DISCOUNT POINTS</b></p>	<p>Limited to 2%</p>



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<p><b>DOCUMENTATION REQUIREMENTS</b></p>	<ul style="list-style-type: none"> <li>• IRS 4506-T must be completed and dated at application and again at closing for all borrowers.</li> <li>• IRS processed transcripts for time periods covered must be validated prior to closing.             <ul style="list-style-type: none"> <li>○ If an exception for the use of W-2's only has been approved by Corporate then IRS transcripts for W-2's only will be required.</li> <li>○ Account Transcripts required for all transactions</li> </ul> </li> <li>• Alive and Well Statement signed by veteran and/or Commanding officer (if veteran is deployed) dated prior to Note date</li> <li>• Power of Attorney allowed: Must be specific &amp; veteran must execute the initial or final 1003 with a live signature</li> <li>• Fully executed letter of explanation regarding the purpose of cash-out proceeds</li> <li>• Termite Report- if no clearance report must be signed by Veterans(s). If Termite Clearance issued only clearance needs to be signed by veteran(s)</li> <li>• A statement from the borrowers disclosing the purpose for the cash out is required</li> </ul>
<p><b>DTI RATIOS</b></p>	<ul style="list-style-type: none"> <li>• DU/LP up to 50% (DU must be run 1<sup>st</sup> – LP is only allowed with Corporate Approval)</li> <li>• DU/LP &gt; 50% requires Corporate 2<sup>nd</sup> Signature &amp; (3) VA Compensating Factors.</li> <li>• 43% limit for Manual underwrite (see required FICO Limitation &amp; Loan amount limits)</li> </ul>
<p><b>ELIGIBLE MORTGAGE PRODUCT-NEW LOAN</b></p>	<p><i>Fixed Rate 30 Year, 15 Year &amp; 5/1 Arm</i></p> <ul style="list-style-type: none"> <li>• VA to VA Refinance</li> <li>• Conventional to VA</li> <li>• FHA to VA</li> </ul> <p><b>NOTE:</b> NO CASH OUT allowed on properties that are Free &amp; Clear.  <b>NOTE:</b> Refinance from a Private Note to a VA Loan is not allowed</p>
<p><b>FICO</b></p>	<ul style="list-style-type: none"> <li>• 620-639 FICO with ≤45% DTI with AUS and Corporate Investor Specific Approval</li> <li>• 620-639 FICO Manual underwrite with ≤45% DTI; requires 3 VA Compensating Factors and Investor Specific</li> <li>• 640 FICO for loan amounts ≥ \$424,100 to ≤ \$699,999 (Manual underwrite also allowed with ≤45% DTI, 3 VA Compensating Factors and Investor Specific Exception)</li> <li>• 660 FICO for loan amounts ≥ \$700,000 to ≤ \$999,999</li> <li>• 700 FICO for loan amounts ≥ \$1,000,000 to \$1,500,000 (Corporate Investor Specific Approval)</li> <li>• <b>See Rate Sheet for Additional Pricing Adjustment</b></li> </ul>
<p><b>HIGH COST/ HIGH PRICED</b></p>	<ul style="list-style-type: none"> <li>• Not allowed</li> </ul>

**INCOME REQUIREMENTS**

- DU/LP requirements must be met
- Verbal Verification of Employment (VVOE) within 10 days of Note
- **Verification: Multi-Unit Property (2-4 Units)**
  - Verify cash reserves totaling at least 6 months mortgage payments (principal, interest, taxes, and insurance – PITI), and
  - Documentation of the veteran’s prior experience managing rental units or other background involving both property maintenance and rental.
- **Analysis: Multi-Unit Property Securing the VA loan**  
 Include the prospective rental income in effective income only if:
  - Evidence indicates the applicant has a reasonable likelihood of success as a landlord, and
  - Cash reserves totaling at least 6 months mortgage payments are available.
  - The amount of rental income to include in effective income is based on 75% of :
    - Verified prior rent collected on the units (existing property), or
    - The appraiser’s opinion of the property’s fair monthly rental
- **Rental Income (vacating property)**
  - Obtain a copy of the rental agreement on the property, if any
  - Use the prospective rental income only to offset the mortgage payment on the rental property and only if there is no indication that the property will be difficult to rent. This rent income **MAY NOT** be included in the effective income.
  - Obtain a working knowledge of the local rental market. If there is no lease on the property, but the local rental market is very strong.
  - No reserve requirements
- **Rental Income ( Schedule E Property)**
  - Rental Income from Schedule E property- (refer to reserves required under Assets)
  - Income would be determined from the individual income tax returns, signed and dated, plus all applicable schedules for last 2 years, which show rental income generated by the property. Property depreciation claimed as a deduction on tax returns can be added back for income.
  - Little or No prior rental history
    - Document of the applicant’s prior experience managing rental units or other background involving both property maintenance and rental **and**
    - Any leases on the property **and**
    - The strength of the local rental market

**INCOME  
REQUIREMENTS  
CONTINUED**

- **2106 Expense-** *Effective for application taken on or after June 1, 2016*
  - Borrower who qualified using base pay, bonus, overtime or commission income of less than 25% of total annual employment income:
    - IRS form 2106 expenses are not required to be deducted from income even if they are reported on IRS form 2106 and are not required to be added as a monthly liability. (Example- Police Officer, Teacher or Construction Worker etc. 2106 expenses do not have to be deducted unless borrower receives commission income in conjunction with other W-2 pay and is less than 25% of total annual income)
    - Borrower earning commission income that is 25% or more of annual employment income, IRS form 2106 expenses must be deducted from gross commission income regardless of the length of time the borrower has filed the expenses with the IRS.
      - On exception to the policy clarification concerns an automobile lease or loan payment. Automobile lease or loan payments are not subtracted from the borrower's income; they are considered part of the borrower's recurring monthly debt obligations in Section D on the VA form 26-6393 (Loan Analysis).
      - Tax returns are required to document the source of income and deductions.
    - If the borrower reports an automobile allowance as part of the monthly qualifying income, the lender must determine if the automobile expenses reported on IRS form 2106 should be deducted from income or treated as a liability.
      - If the reported expense exceeds the automobile allowance, the amount must be deducted from income as a net calculation in Section D on the VA Form 26-6393(Loan Analysis).
      - If the reported expense is less than the automobile allowance, the amount must be treated as net income and added to the borrower's monthly income.
- **Self- Employed Borrower(s)**
  - Each borrower (regardless of income source) must complete and sign separate IRS Form 4506-T at application and again with loan documents. P&L and Balance Sheet required if the borrower's tax year ending has elapsed by more than 3 months
  - If using the borrower YTD P&L to qualify, both P&L and Balance sheet need to be audited.
  - Borrower(s) who have significant declining income compared to the previous 2 years, require an explanation from their accountant to verify the stability of the self-employment income.



<p><b>INCOME REQUIREMENTS CONTINUED</b></p>	<p style="text-align: center;"><b><u>2016 Tax Return Transcripts</u></b></p> <p>Loans closed on or after June 15, 2017 must include the 2016 Tax Return Transcripts to be eligible for purchase. If a borrower has filed an extension, we require:</p> <ul style="list-style-type: none"> <li>○ Evidence in the file that the extension was filed, and</li> <li>○ A 2016 Tax Transcript showing “No record of return filed”</li> </ul> <p><b>Note:</b> Loans that do not require income (non-credit qualifying VA IRRRLs) are exempt.</p> <ul style="list-style-type: none"> <li>● <b>Other Income</b> – If it is reasonable to conclude that other types of income will continue in the foreseeable future, income may be included as effective income.             <ul style="list-style-type: none"> <li>○ Other types of income which may be considered as effective income include, but are not limited to:                     <ul style="list-style-type: none"> <li>▪ Pension or other retirement benefits</li> <li>▪ Disability income (i.e. Maternity Leave)</li> <li>▪ Dividends from stocks</li> <li>▪ Interest from bonds &amp; savings accounts</li> <li>▪ Royalties</li> </ul> </li> <li>○ The lender may include verified income from public assistance programs as effective income if evidence indicates it will probably continue for 3 years or more.</li> <li>○ The lender may include verified workers’ compensation income that will continue for the foreseeable future, if the veteran chooses to reveal it.</li> <li>○ The lender may include verified income received specifically for the care of any foster child/children. Generally, foster care income is to be used only to balance the expenses of caring for the foster child/children against any increased residual income requirements.</li> <li>○ Do not include temporary income items such as VA educational allowances and unemployment compensation in effective income.</li> </ul> </li> </ul> <p><b>NOTE:</b> If unemployment compensation is a regular part of the applicant’s income due to the nature of his or her employment (i.e. seasonal work) it may be included.</p> <p><b>NOTE:</b> For information on Income, please refer to VA Guide Chapter (4) Income 4-26</p> <p><b>NOTE:</b> Non-Taxable income gross-up factor is <u>120%</u>. The grossed-up portion cannot be included in the residual income calculation.</p>
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# VA CASH-OUT & RATE/TERM REFINANCE



<b>IRS/STATE TAX RETURN DEBT</b>	<ul style="list-style-type: none"> <li>• Minimum payment history of 12 months <b>or</b></li> <li>• Will be required to be PAID IN FULL</li> </ul>																																																																																
<b>LDP/GSA</b>	Required for all borrowers																																																																																
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<b>PROPERTY REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>• Single Family Residence</li> <li>• PUD</li> <li>• Condo                             <ul style="list-style-type: none"> <li>○ Must be on VA-Approved Condo list in the VA Portal</li> <li>○ Minimum HOA Certificate requirement                                     <ul style="list-style-type: none"> <li>▪ List number of units delinquent on HOA dues</li> <li>▪ Note any litigation involving the HOA</li> </ul> </li> </ul> </li> <li>• 2-4 Units (per guideline requirements)</li> <li>• Owner Occupied Primary Residence only</li> <li>• 2-4 units not available for loan amounts over &gt; \$424,100</li> <li>• Manufactured Home (Rate &amp; Term Only ) – refer <i>to FHA-VA Manufactured Home</i> in Quick Look Manual</li> </ul>																																																																																
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<p><b>SAME-SEX MARRIED COUPLES</b></p>	<p><b>Lender Processing:</b></p> <p>Same-sex married couples when executing the 1003 and 1802a acknowledge that they meet the following VA requirements:</p> <ul style="list-style-type: none"> <li>• The marriage was legal in the place where the Veteran or the Veteran’s spouse resided at the time of the marriage;</li> <li>• Legal in the place where the Veteran or the Veteran’s spouse resided at the time the completed 1003 and 1802a were submitted to PBM;</li> <li>• Legal in the place where the Veteran or the Veteran’s spouse resided in at the time of closing;</li> <li>• If the borrower asserts a spousal relationship in item 19 (1802a) and signs the form, which includes a certification by the borrower that “the information is true and complete to the best of their knowledge and belief”, PBM may process the loan per normal practices without submitting a loan package to VA for approval of spousal status:</li> </ul> <p>If the borrower informs the lender that he or she is uncertain as to whether the marriage may be recognized for VA purposes, the underwriter must request that VA make a determination regarding whether the marriage can be recognized.</p> <p>The following information should be provided to Phoenix Regional Loan Center via email at: <a href="mailto:LPGC.VBAPHO@va.gov">LPGC.VBAPHO@va.gov</a> for further review:</p> <ul style="list-style-type: none"> <li>• Date and state of marriage;</li> <li>• State(s) of residence of the parties at the time of marriage;</li> <li>• State where the subject property is located;</li> <li>• Current state(s) of residence of the parties;</li> <li>• Estimated date of loan closing; and</li> <li>• Whether VA has previously recognized the marriage for the purpose of a different VA benefit or service. The underwriter should request this information from the borrower if not already available.</li> </ul>
<p><b>SOLAR/ENERGY EFFICIENT IMPROVEMENTS</b></p>	<ul style="list-style-type: none"> <li>• <b>Solar Equipment</b> <ul style="list-style-type: none"> <li>○ <u>Veteran Owns Free and Clear</u>- No requirements needed allowed to state on property. This service can be paid through the new loan. Anything over \$6,000 requires VA value determination &amp; approval.</li> <li>○ Appraiser may issue value to the system, but must have additional comp with solar owned unit.</li> <li>○ <u>Veteran Leased Equipment</u>- No value can be given to appraisal</li> <li>○ Solar lease agreement must be reviewed by Corporate to validate foreclosure position meets VA guidelines. (Solar company to have following foreclosure verbiage-Must remove equipment without recourse to the lender or VA and return roof to water tight status)</li> <li>○ Utility payment for new leased solar equipment cannot exceed the allowable Maintenance/Utility cost per VA guidelines. (Example- 14 cents x sq. ft. of home (1700) = \$238. New lease payment cannot exceed this amount. If greater then difference will need to be added as debt)</li> </ul> </li> </ul>

## VA CASH-OUT & RATE/TERM REFINANCE

### SOLAR/ENERGY EFFICIENT IMPROVEMENTS CONTINUED

- **PACE/HERO-(Lender Specific Required)**
- Properties that are or will remain encumbered with a PACE/HERO obligation may be eligible for VA-guaranteed financing provided that the underwriter determines that the following requirements are met:
  - Under the laws of the state where the property is located, the PACE/HERO obligation must be collected and secured by the creditor in the same manner as a special assessment against the property.
  - The property may be subject to the full PACE/HERO obligation; however, the property shall not be subject to an enforceable claim (i.e., a lien) superior to the VA-guaranteed loan for the full outstanding PACE/HERO obligation at any time.
  - The property may, however, be subject to an enforceable claim (i.e., a lien) that is superior to the VA-guaranteed loan for delinquent regularly scheduled PACE/HERO special assessments.
  - There are no terms or conditions that limit the transfer of the property to a new homeowner. Legal restrictions on conveyance arising from a PACE/HERO obligation that could require the consent of a third party before the owner can convey the real property are prohibited, unless such provisions may be terminated at the option of, and with no cost to, the owner.
  - The existence of a PACE/HERO obligation on a property is readily apparent to the mortgagees, appraisers, borrowers, and other parties to a VA-guaranteed loan transaction; information on PACE/HERO obligations must be readily available for review in the public records where the property is located.
  - At the time of purchase, the sales contract must include whether the PACE obligation will remain with the property or be satisfied by the seller at, or prior to closing. Where the PACE/HERO obligation will remain, all terms and conditions of the PACE/HERO obligation must be fully disclosed to the borrower and made part of the sales contract between the seller and the borrower.
  - Where improvements have been made to the property through a PACE/HERO program, and the PACE/HERO obligation will remain outstanding, the appraiser must analyze and report the impact on the value of the property, whether positive or negative, of the improvements and any additional obligation (i.e., increased tax payments).
- **Energy Efficient Improvements-**
  - Energy Efficiency Improvements up to \$3,000- This is allowed so long as the increase in loan payments will be offset by a reduction in the utility costs.
  - Energy Efficiency Improvements up to \$3,0001 to \$6,000- The lender must determine if the increase in monthly mortgage payments does not exceed the likely reduction in monthly utility costs. Rely on locally available information provided by utility companies, municipalities, state agencies or other reliable sources (HERS Report) and document the determination.

**SOLAR/ENERGY  
EFFICIENT  
IMPROVEMENTS  
CONTINUED**

- Energy Efficiency Improvements above \$6,000- Lender MUST exercise discretion and consider-
  - Whether the increase in monthly mortgage payments exceeds the likely reduction in monthly utility costs, and
  - Whether the veteran's income is sufficient to cover the higher loan
  - Energy Efficiency Improvements above \$6,000- VA PRIOR APPROVAL and issuance of the VA Certificate of Commitment before the decision to make energy efficiency improvements over \$6,000 and must be returned to VA for determination that the applicant still qualifies before CD. (This is a full VA office approval for complete loan only).
  - Underwriter MUST- determines that the proposed weatherization and/or energy conservation improvements are reasonable for the particular property.
  - Underwriter MUST- determines that the veteran has the ability to pay the increase loan amount payments caused by the addition of energy efficient improvements.
  - Underwriter MUST- determines that the appraiser has received all necessary paperwork in regards to all energy efficient improvements and has notated all information on the appraisal.
- **NOV- for Solar /Energy Efficient Improvements-**
  - Case assignment done by Va Construction & Valuation Team to assign a special valuation/appraisal
  - SAR will need to provide Veteran with following notice- "the buyer may wish to contact a qualified person/firm form home energy audit to identify needed energy efficiency improvements to the property. In some localities, the utility company may perform this service. The mortgage amount may be increased as a result of making energy efficiency improvements such as: Solar or conventional heating/cooling systems, water heaters, insulation, weather-stripping/caulking, and storm windows/doors. Other energy related improvements may also be considered"
- **Calculate Guarantee and Entitlement Use-**
  1. Calculate guaranty on the loan **without** the portion attributable to the energy efficiency improvements. (Underwriter will need to do this manually)
  2. Calculate guaranty on the energy efficiency improvements portion by applying the same percentage used in step 1
  3. Add the results of 1 & 2 to arrive at guaranty on the entire loan.
    - Note-** the veteran's entitlement will **only** be charged the amount arrived at

Step 1; it is based upon the loan amount **before** adding the cost of the energy efficiency improvements.

(EXAMPLE: veteran has full entitlement and applies for loan of \$144,000, the 25% guarantee on the loan will only require the use of \$36,000 entitlement, 25% guarantee of energy efficient improvement is \$6,000 or \$1,500; total Guarantee dollar amount would be \$37,500)





<p><b>STUDENT LOANS</b></p>	<ul style="list-style-type: none"> <li>• <b>Student loans-</b> <ul style="list-style-type: none"> <li>○ If the Veteran or other borrower provides written evidence that the student loan debt will be deferred at least 12 months beyond the date of closing, a monthly payment does not need to be considered.</li> <li>○ If a student loan is in repayment or scheduled to begin within 12 months from the date of closing, the underwriter must consider the anticipated monthly obligation in the loan analysis and utilize the payment as shown below.</li> <li>○ Calculate each loan at a rate of 5% of the outstanding balance divided by 12 months (example: \$25,000 student loan balance x 5% = \$1,250 divided by 12 months = \$104.17 per month is the monthly payment for debt ratio purposes)                             <ul style="list-style-type: none"> <li>- (1) The underwriter must use the payment(s) reported on the credit report for each student loan(s) if the reported payment is <b>greater</b> than the threshold payment calculation above.</li> <li>- (2) If the payment reported on the credit report is <b>less than</b> the threshold payment calculation above, the loan file must contain a statement from the student loan servicer that reflects the actual loan terms and payment information for each student loan(s).                                     <ul style="list-style-type: none"> <li>▪ The statement must be dated within 60 days of VA loan closing and may be an electronic copy from the student loan servicer’s website or a printed statement provided by the student loan servicer.</li> <li>▪ It is the underwriter’s discretion as to whether the credit report should be supplemented with this information.</li> </ul> </li> </ul> </li> </ul> </li> </ul>
<p><b>TEMPORARY BUYDOWNS</b></p>	<ul style="list-style-type: none"> <li>• Not available</li> </ul>
<p><b>TITLE</b></p>	<ul style="list-style-type: none"> <li>• Closing Protection Letter</li> <li>• Non-Borrowing Spouse can only be on title if they sign the Deed of Trust at closing. VA will not allow added non-borrowing spouse after closing.</li> </ul>
<p><b>UNDERWRITING METHOD</b></p>	<ul style="list-style-type: none"> <li>• Follow DU/LP findings- Fico scores must be met regardless of DU/LP findings.</li> <li>• Manual underwriting only for DU/LP approvals downgraded by underwriter as long as all of the following are met;             <ul style="list-style-type: none"> <li>○ 700 FICO Score</li> <li>○ 0x30x12 Mortgage history, Management VOR or Cancelled checks</li> <li>○ Maximum 45% DTI, <b>and</b></li> <li>○ Loan must comply with all VA requirements for manual underwriting.</li> <li>○ Contact Secondary for lender specific approval, <b>and</b></li> <li>○ In the “Note” section of Empower be sure to note loan is a manual underwrite &amp; the reason why, <b>and</b></li> <li>○ Include this information on the Loan Analysis.</li> </ul> </li> <li>• Fully executed Max Loan Worksheet to be completed by Underwriter</li> <li>• Cash-Out Loans issued to 2 veterans with single or dual eligibility (50/50) require VA to underwrite and approve the loan. <b>(Excludes a husband and wife with dual eligibility when only one spouse’s Eligibility is being used to qualify)</b></li> </ul>

# VA CASH-OUT & RATE/TERM REFINANCE



<b>UNDERWRITING METHOD, CONTINUED</b>	<ul style="list-style-type: none"> <li>○ Once the loan has been completely processed and underwritten at the branch, the file needs to come to Corporate Office for review by Corporate Govt. Underwriter.</li> <li>○ Once a Corporate Underwriter has reviewed the file for completeness, the file will be sent to VA for approval.</li> <li>○ Turn times for VA will depend on VA's current work load.</li> <li>● 1802A and 1003 must be processed as follows:             <ul style="list-style-type: none"> <li>○ Initial 1003 &amp; pages 1 &amp; 2 only of the 1802A must be executed prior to loan documents. The 1003 page 3 and Page 1 of the 1802A must be signed by the loan officer.</li> <li>○ Final 1003 &amp; pages 1 &amp; 2 only of the 1802A must be executed at closing. Pages 1 of the 1802A are to be executed by PBM VA Approved Underwriter with final loan approval date.</li> </ul> </li> <li>● VA Statement of Itemization to HUD 1 (located in Form)</li> </ul>
<b>USEFUL LINK</b>	<a href="http://www.warms.vba.va.gov/pam26_7.html">http://www.warms.vba.va.gov/pam26_7.html</a>
<b>VA ALLOWABLE FEES</b>	<ul style="list-style-type: none"> <li>● <b>VA Allowable Fees-</b> <ul style="list-style-type: none"> <li>○ Appraisal</li> <li>○ Recording of Deed of Trust</li> <li>○ Credit Reports</li> <li>○ Prepaids</li> <li>○ Hazard Ins.</li> <li>○ Flood Zone Determination</li> <li>○ Termite Fees or work completed</li> <li>○ Title Policies</li> <li>○ VAFF</li> </ul> </li> </ul> <p>Additional third party fees that the veteran has authorized (Home Inspection)</p>
<b>VA NON-ALLOWABLE FEES</b>	<ul style="list-style-type: none"> <li>● <b>NON-Allowable Fees-</b> <ul style="list-style-type: none"> <li>○ Base Escrow Fee</li> <li>○ Loan Tie-in Fee</li> <li>○ Demand/Payoff Statement fee (ok on refinance <b>only</b>)</li> <li>○ Sub Escrow Fee (title payoff fee)</li> <li>○ Reconveyance Fee (ok on refinance <b>only</b>)</li> <li>○ Prepayment penalties (ok on refinance <b>only</b>)</li> <li>○ Any Lender Document Fee</li> <li>○ Processing Fee</li> <li>○ Warehouse Fee</li> <li>○ Loan Discount Points</li> <li>○ Charges by other Lenders</li> <li>○ Tax Service Contract</li> <li>○ Underwriting Fee</li> <li>○ Administration Fee</li> <li>○ Photo Inspection Fee</li> <li>○ Recording Fee (grant deed)</li> <li>○ Messenger or Delivery Fees</li> </ul> </li> </ul>

**VA**  
**CASH-OUT & RATE/TERM REFINANCE**



**VA NON-ALLOWABLE FEES, CONTINUED**

- Notary Fee
- Homeowners Assoc. Transfer Fee
- Assignment Fees
- Documentary Transfer Tax Fee
- Bring Down Fee
- Change of Ownership Fee
- Commission
- Transaction Coordinator Fee
- Title Policy Endorsement Fees

**Note:** As long as there is no origination fee being charged to the veteran, the veteran can pay up to 1% of the total loan amount in NON-Allowable fees.