



DU User's Guide for VA Loans

May 2008



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Foreword

Introduction

DU[®] for Government Loans is the component of Desktop Underwriter[®] (DU) that is used by DU licensees in conjunction with their underwriting of loan applications, the repayment of which are insured by FHA (Federal Housing Administration) or guaranteed by VA (U.S. Department of Veterans Affairs).

The use of DU for Government Loans (including the submission of loan casefiles to the pmiAURASM risk model for VA loans), is governed by the Fannie Mae Software Subscription Agreement and the DU (Expanded Use Version) Schedule. VA lenders that have not executed these documents should contact their Fannie Mae customer account team.

Note: From here on in this guide, DU for Government Loans is referred to as DU.

This user's guide provides detailed information on data entry requirements and system functionality for submitting VA loan applications to DU. The instructions in this user's guide are provided to facilitate lenders' submission of accurate data to DU and are not intended to interpret, explain, or supersede VA's guidelines or requirements.

Definitions

DO/DU user interface

The Desktop Originator[®]/Desktop Underwriter (DO[®]/DU) user interface is Fannie Mae's online tool for entering data in the loan application, ordering credit reports, submitting loan casefiles to DU, and assisting lenders in managing the process of underwriting their loans in an automated fashion.

pmiAURA risk model

The pmiAURA risk model is a statistical model developed by the PMI Mortgage Insurance Company and the Allstate Research and Planning Center (ARPC) based on a database of VA loan and performance data. pmiAURA is the risk model used by DU for VA loans.

VA-approved underwriter

An underwriter approved by VA to process and close VA-guaranteed loans based on VA credit standards, as set forth in the most recent revision of the *VA Lender's Handbook*.

Loan application

The term “loan application” refers to Fannie Mae’s online version of the Uniform Residential Loan Application (Form 1003) in the DO/DU user interface. The online loan application is available in two formats: Quick 1003 and Full 1003. The Quick 1003 allows users to submit a loan casefile to DU with a minimal set of loan data. The Full 1003 allows users to complete all data fields. However, regardless of the format used (Quick 1003 or Full 1003), DU analyzes only the required (minimal) data elements to provide an underwriting recommendation and evaluate the eligibility of a loan casefile for FHA insurance or VA guarantee.

Loan application sections

This guide provides data entry instructions for the following sections within the loan application:

- Type of Mortgage and Terms of Loan
- Subject Property, Address, and Purpose of Loan
- Borrower Information
- Employment Information
- Monthly Income and Combined Housing Expense
- Assets
- Real Estate Owned
- Liabilities
- Details of Transaction
- Declarations
- Information for Government Monitoring Purposes
- Additional Data
- VA Government Information

Loan casefile

A loan casefile is a data file to which DO/DU has assigned a casefile ID and which may contain loan application data.

About VA guidelines

Lenders must follow all guidelines specified in the *VA Lender’s Handbook* for loans submitted to DU. This handbook, which is published by the Department of Veterans Affairs, provides information on a number of VA-related topics, including lender requirements and responsibilities, the veteran’s eligibility and entitlement, credit underwriting, and guidance on documentation requirements for VA loans.

On the VA Loan Summary Sheet (Form 26-0286), check **Yes** in block 46A to indicate that a loan was processed under an approved automated underwriting system, and in block 46B, check **DU** to indicate that DU was the system used.

The final DU Underwriting Findings report and the following certification must be maintained with the origination package and submitted to VA if the loan is selected for audits:

“I, the undersigned lender, hereby certify that case number (insert VA loan number) was processed through Desktop Originator/Desktop Underwriter and received an Approve rating. I further certify that all information entered into the system has been verified and that any credit discrepancies have been reconciled.”

A representative of the lender must sign this certification. It is not necessary for the underwriter to sign this form.

What's new in the May 2008 edition

This guide has been updated to include information provided in the *DU for Government Loans Release Notes* dated January 11, 2006, August 16, 2006, and November 15, 2007.

Additional resources

In addition to this guide, the following resources are available.

Fannie Mae resources

DU for Government Loans Release Notes

Release Notes, which are available on eFannieMae.com, describe updates to DU for Government Loans.

Fannie Mae's Customer Contact Center

The Fannie Mae Customer Contact Center provides assistance with general questions about DU and the DO/DU user interface. To reach the Customer Contact Center, call **1-877-722-6757**. For additional information about the Customer Contact Center, including hours of operation and tips for calling, see the Single-Family Customer Contact Center page on eFannieMae.com.

Training resources

The Training & Education area on eFannieMae.com provides a number of training resources for submitting VA loan casefiles to DU. Below are several examples of the resources that are available.

- **Quick Steps: Entering the Data for a VA loan**

This document provides step-by-step instructions for entering the data for a VA loan casefile in the DO/DU user interface

- **Practice Case for VA Loans**

Practice Case 8 is specifically designed to provide hands-on experience with entering and submitting a VA loan casefile to DU.

Help Center

To access Fannie Mae's online Help Center, click the **Help Center** link in the upper-left corner of any screen in the DO/DU user interface. The Help Center is also available from the logged-in view on eFannieMae.com.

The Help Center provides answers to frequently asked questions about the current screen in the DO/DU user interface. For example, below is a picture of the Help Center screen that is available from the VA Government Information screen in the DO/DU user interface.

Help Center

[Live Web Chat](#) | [Contact Us](#) | [Share My Desktop](#)

Search [Browse Content](#) | [Advanced Search](#) | [Recent Searches](#)

Example: How do I do business with Fannie Mae?

1 - 10 of 14

[How can I get help with my questions about the billing process?](#)
You can go to eFannieMae.com or contact a Billing Customer Service representative at 1-800-752-6440.
Solution ID: kc1409 (3K) - Sep 18, 2007

[What should I do if I have an underwriting question about a particular loan?](#)
Your first step should be to contact your company's underwriting department.
Solution ID: kc1248 (3K) - Sep 12, 2007

[Why am I getting a total expense ratio error for a second home or investment property?](#)
Make sure the borrower's current Total Combined Housing Expense is accounted for in the Liabilities screen.
Solution ID: kc1410 (8K) - Jul 30, 2007

[Why am I failing the maximum loan calculation on VA?](#)
The Government Underwriting Service performs several calculations to determine the maximum base loan amount.
Solution ID: kc1977 (5K) - Apr 14, 2007

[Where do I enter the income taxes for a VA loan?](#)
For VA loans, all income taxes for each borrower should be entered in the Total Taxes field.
Solution ID: kc1978 (3K) - Apr 14, 2007

VA resources

Underwriting questions on VA-specific issues or interpretation of VA guidelines should be directed to the local VA point of contact. For a list of the VA offices with Loan Guaranty Service functions, go to VA's Web site:

<http://www.homeloans.va.gov/rlcweb.htm>

Chapter 1:

Entering Data for VA Loans

All data entry instructions in this user's guide are provided specifically for VA loan casefiles in the DO/DU user interface for submission to DU. Most of the instructions in this chapter are based on the data fields in the Quick 1003; while other data fields are available only in the Full 1003.

Important: In addition to entering data in the loan application, lenders may be able to download the data into the DO/DU user interface from a loan origination system (LOS), or submit the loan data directly to DU from an LOS; however, lenders are responsible for determining that all appropriate data are properly transmitted to DU. Further, lenders are responsible for ensuring that all data submitted to DU are accurate and properly verified and documented. For example, as specified in the following requirements set forth in Chapter 4 of the *VA Lender's Handbook*:

“the data utilized by the system must be supported by source documentation obtained by the lender. Inaccurate or unverified data will result in invalidation of the risk classification. Under certain circumstances it could also result in a finding of material misrepresentation, which could affect the validity of the guaranty.”

Type of Mortgage and Terms of Loan

Is this a Pre-Approval?

Use this optional field to indicate whether the loan is being submitted as a pre-approval.

Mortgage Applied For

To specify that the loan is a VA loan, select **VA** in the Mortgage Applied For field.

Loan Amount (excluding funding fee)

Enter the **base** loan amount. Do not include the VA funding fee in the Loan Amount field. If the base loan amount changes, use this field to make the adjustment.

Interest Rate (%)

Enter the note rate.

No. of Months

Enter the loan term in months.

Amortization Type

Select **Fixed Rate** or **ARM**, as applicable.

Lender Loan Number

Enter a loan number for this loan casefile.

Note: The Lender Loan Number field gives lenders a way to identify each loan, in addition to the casefile ID that DU assigns to the loan.

Subject Property Address and Purpose of Loan

Street, City, State/ZIP

Enter the street address, city, and ZIP Code for the subject property. Select the property state from the State field.

If the loan is a pre-approval, select the state where the subject property is located and leave the rest of the address fields blank. Some loan origination systems (LOSs) require an entry for the street address. If that is the case, enter “**prequal**” or “**tbd**” in that field for a pre-approval.

A “standardized” property address is a valid property address in DU’s collateral assessment database. When a loan casefile is submitted to DU, the collateral assessment component in DU “reads” the subject property address on the online loan application and attempts to match that address to standardized property addresses in DU’s collateral assessment database. This comparison process will either locate the exact address or a similar address, or will determine that there is no match in the database.

DU uses the standardized property address when identifying certain property-related Potential Red Flag messages that may appear in the DU Underwriting Findings report.

Note: For guidance on entering the subject property address to increase the likelihood that DU will accurately identify the standardized address for the property, click the **Help Center** link on the Types, Terms, and Property screen in the DO/DU user interface, then refer to the topic on entering subject property addresses.

No. of Units

Select the number of dwelling units in the subject property.

Purpose of Loan

In the Purpose of Loan field, select either **Purchase** or **Refinance**, as applicable. The other listed options (Construction, Construction-Permanent, and Other) are not currently available for VA loan casefiles submitted through DU.

Occupancy

Select **Primary Residence**. Only primary residences are eligible for VA loan casefiles.

Estate Held In

Select **Fee Simple** or **Leasehold**, as applicable.

If Refinance Loan, Purpose of Refinance

If the loan purpose is Refinance, select the appropriate option in the Purpose of Refinance field. For details on refinance options, refer to VA's guidelines.

Borrower Information

Enter the veteran/borrower information and spouse/co-borrower information, if applicable. Enter the number of dependents for each borrower. (Each dependent should be listed only once.) If the co-borrower has additional dependents that are not listed by the veteran, enter these dependents on the co-borrower's side of the screen.

Note: The number of dependents should *not* include the veteran or the spouse/co-borrower but should include any other members of the household who depend on the applicants for support, regardless of the nature of the relationship.

Only two borrowers are permitted on VA loans submitted to DU.

Note: Any loan for which the veteran will hold title to the property with any person other than the veteran's spouse must be submitted to VA for underwriting approval. (Refer to Chapter 5 of the *VA Lender's Handbook for Prior Approval Loan Procedures*.)

VA guidelines require a two-year residency history for each borrower; however, a two-year history is not required for submission to DU.

Note: If previous address data is required, click **Previous Address Information** in the navigation bar.

The Mailing Address fields are optional. Use these fields if the borrower receives mail at a different address (for example, a Post Office box).

Employment Information

Current Employment

Enter current employment information as appropriate. In the Self Emp field, select **Yes** or **No** to indicate whether each borrower is self-employed.

Note: The Self Emp field is required if any data is entered for a current job.

Secondary/Previous Employment

Use this section to enter secondary, part-time, and previous employment. Do not enter “homemaker, full-time student, or retired.” Only actual employment information should be entered in this screen.

Note: VA guidelines require a two-year employment history; however, a two-year history is not required for submission to DU.

Monthly Income and Combined Housing Expense

Gross Monthly Income fields

In this section, enter income that is considered acceptable for qualifying purposes under VA’s guidelines for borrowers and co-borrowers.

- Base Income – This field should include employment income, self-employment income, military base pay, taxable military allowances, and income from a second job.
- Overtime
- Bonuses
- Commissions
- Dividends/Interest
- Other – This field is not editable. DU automatically populates it based on the amounts entered in the Other Income section as described below.
- Net Rental – DU does *not* use this field for VA loans. Instead, DU collects the net rental income from the Real Estate Owned (REO) screen. For details, see [Real Estate Owned](#) on page 10.

Note: Net rental income applies to rental property other than the subject property.

DU uses the following formula to calculate the net rental income from the Real Estate Owned data:

$(\text{gross rental income} \times 75\%) - \text{mortgage payment} - \text{insurance/maintenance/taxes} = \text{net rental income}$

All rental income that has been verified manually should be entered. DU includes positive net rental income from all rental properties in the qualifying income for the borrowers. Negative net rental income is considered a liability and is included in the total expense ratio calculation for the borrower.

- Subject Net Cash – If the transaction is a two- to four-unit owner-occupied property, calculate the subject net cash flow and enter the amount in the Subject Net Cash field. Refer to current VA guidelines for additional information about calculating projected rents on a purchase transaction.

The DU Underwriting Findings report will contain messages for each type of income provided. Some of the messages may indicate reduced documentation

requirements, while other messages may require users to consult VA guidelines for documentation requirements.

Other Income section

Enter all types of non-taxable military income (such as housing, clothing and subsistence allowances) in the Other Income section, as well as all other types of income that are not covered in the Gross Monthly Income section. For example, use the Other Income section to enter military housing allowances, non-educational VA benefits, and alimony and child support income the borrower receives.

For each Other Income type entered, select the applicable borrower and enter a description of the income, and the income amount.

Below is a brief description of VA's guidelines for certain types of other income:

- Boarder Income – VA guidelines do not generally allow boarder income to be used in qualifying; therefore, DU will return an Ineligible recommendation and message if this income is entered.
- Mortgage Credit Certificate (MCC) – The MCC amount must be entered in the VA Government Information screen – *not* in the Income screen. If MCC is entered in the Income screen, DU returns an Ineligible recommendation and a message indicating that the MCC was entered incorrectly.
- Trailing Co-Borrower Income – VA guidelines do not generally allow trailing co-borrower income to be used in qualifying; therefore, DU will return an Ineligible recommendation and message if this income is entered.

Note: Per VA guidelines, non-taxable income can be “grossed up” to calculate the debt-to-income ratio. To do so, enter the total of the income *plus* the grossed-up amount in the appropriate income data field. The grossed-up portion of the income may *not* be used in calculating the residual income; therefore, the grossed-up portion *must* be included in the Total Taxes field in the VA Government Information screen. For details, see [Total Taxes](#) on page 20.)

Combined Housing Expense fields

- Current – In the Current column, enter the borrower's and co-borrower's current primary housing expenses. If there are multiple borrowers, enter the current primary housing expense separately for each additional borrower.
- Proposed – DU calculates the amount in the First Mortgage (P&I) field based on the loan amount and the note rate. Use the other fields in the Proposed column to enter any other applicable proposed housing expenses, including the principal and interest for other mortgages, as well as hazard insurance, taxes, and homeowner's association dues for the subject property.

Assets

All liquid asset types are counted in the available funds for a VA loan casefile. Documentation to support the source of these funds must comply with VA guidelines. All of the liquid assets entered in the loan casefile must be verified based on the documentation level outlined in the DU Underwriting Findings report.

Below is a brief description of VA's guidelines for certain types of assets.

- **Cash Deposit on Sales** – Cash deposits on sales contracts are considered non-liquid assets, and DU does not include the value in the amount of funds available for closing or in the reserves calculation. If a credit for a cash deposit on a sales contract is entered in the Details of Transaction screen, the loan casefile must contain evidence that the funds have already cleared the account listed in the Assets screen. If this is not the case, the credit entered in the Details of Transaction screen should be removed.
- **Cash on Hand** – VA considers cash on hand an acceptable source of funds. DU will include the amount of cash on hand in liquid assets.
- **Gift Funds** – If the borrower will receive or has received gift funds, select **Gift** in the Asset Type column. If the gift funds are already included in the balance of another asset, subtract the amount of the gift from that asset's balance. The funds available for closing calculated by DU will include the gift funds as if they were liquid funds. Messages regarding documentation of the gift funds in accordance with current VA guidelines will appear on the DU Underwriting Findings report.

Note: The system will include the gift funds when evaluating the borrower's reserves and available funds to close. VA guidelines do not require reserves on one-unit properties. Multi-unit properties that do not have sufficient reserves will receive an Ineligible recommendation.

- **Gift of Equity** – VA does not allow Gift of Equity; therefore, DU will return an Ineligible recommendation if an amount is entered in this field.
- **Net Equity** – Net Equity refers to any net equity the borrower expects to realize from the pending sale of a property. If Net Equity is selected as the asset type, the amount in the Cash Value field on the Assets screen will override any net equity calculation that appears in the REO screen. DU uses the Net Equity from the Assets screen, not the REO, to calculate the borrower's liquid assets.

Real Estate Owned

Information on real estate that is owned by the borrower is essential to the risk analysis. For a VA loan casefile, enter real estate information in the REO screen in the Full 1003.

Property Indicator field

The following options are available for the Property Indicator field:

- **Current Residence** – Use this selection to identify the borrower’s current principal residence except when the subject loan transaction is to refinance the borrower’s current principal residence (in which case, select **Refi of Current Residence**).
- **Subject of the Loan** – Only primary residences are eligible for submission, so this choice is generally not applicable to VA loans.
- **Refi of Current Residence** – This option indicates that the property is both the borrower’s current primary residence and the subject property for the transaction. Use this option for all refinance transactions.
- **Not Applicable** – For properties that do not meet any of the above conditions, select **Not Applicable** or leave the Property Indicator field blank. Second homes and rental subject properties are not eligible for VA loans in DU.

Property Disposition field

The Property Disposition field must contain one of the following options:

- **Sold** – This option indicates that the property has already been sold, the closing has been completed, and any proceeds are already reflected in asset balances. DU does not calculate net equity for Sold properties and ignores any values in the risk analysis and ratio calculations.
Note: Do not omit mortgages on properties entered as Sold. Instead, match these mortgages to the appropriate Sold property. Monthly payments on mortgages that are matched to Sold properties will not be included in the total expense ratio.
- **Pending Sale** – This option applies to properties that are under contract at the time of the loan application and that will close at or before the closing of the subject property.
- **Rental** – This option indicates that the property is a rental property with associated net rental income or net rental loss.
- **Retained** – Use this option for the subject property on a refinance transaction or for the primary residence of an allowable non-occupant co-borrower.

Note on real estate that will be sold

If a listed property will be sold at or before closing, select **Pending Sale** in the Property Disposition field. DU will use the following formula to estimate the net equity:

(Market value entered x 90%) – outstanding mortgages

Net equity is considered a liquid asset. Verify and clearly document sales proceeds in the loan file according to current VA guidelines.

If additional proceeds will be received from the sale of real estate (for example, if a borrower will receive a relocation package from an employer), enter the total amount of proceeds that will be received and select **Net Equity** as the asset type in the Assets screen.

Note: Even though DU calculates the estimated net equity from data in the REO screen, if an amount for net equity is entered in the Assets screen, DU will use the amount in the Asset screen.

Liabilities

Before a loan can be submitted to DU, a three-in-file merged credit report must be requested and received for all borrowers on the loan casefile. To copy the liabilities automatically from the credit report to the loan application, use the auto-populate liabilities option in the DO/DU user interface. LOS users should determine whether their LOS offers this option for use with DU. If the LOS does not provide this option, manually enter all liabilities in the Liabilities screen. Any debts that are not disclosed on the credit report must be added to the liabilities before the loan casefile is submitted to DU.

DU calculates the total expense ratio from the liabilities on the application, not the debts from the credit report.

Note: The lender is required to review the credit report and is accountable for compliance with VA guidelines. Information on the credit report that has not been recognized by DU may require the lender to downgrade the underwriting recommendation.

Excluded installment debt

DU automatically excludes any installment debt that has fewer than 10 months remaining and a monthly payment of less than \$100. If the loan application reflects any other debts that should not be considered in the ratios per VA guidelines, mark those debts as **Omit**.

Note: DU will issue an informational message for any excluded installment debts.

- **Omit** – If the borrower has a liability that is exempt from being included in qualifying the borrower, based on VA guidelines, the debt may be omitted. Omitted debts are not counted in the ratios. The loan casefile should contain documentation to support the omission, per VA guidelines.

To mark a debt as omitted, click the check box in the Omit column for that debt. If a debt has a balance but the monthly payment amount is 0, DU automatically omits the debt. Omitted liabilities appear in a separate area on the Liabilities screen. A message on the DU Underwriting Findings report identifies the liabilities that were omitted.

Note: Follow all current VA guidelines regarding omission of liabilities. For all loans that receive a Refer recommendation, each lender must review all obligations, including those omitted by the system, to determine that the short term obligations will not negatively affect a borrower's ability to make

the mortgage payments in the early months after closing. DU will issue an informational message for any excluded installment debts.

- **Paid By Close** – For all transactions, mark the debts to be paid off by closing in the Liabilities screen. For a refinance transaction, also enter the sum of the balances of all the debts to be paid off (including existing liens and other debts) on Line D in the Details of Transaction screen. For details, see [Line D. Refinance \(including debts to be paid off\)](#) on page 14. Any debts that borrowers will pay off must be documented and verified according to VA guidelines.

If a debt will be paid by closing, click the check box in the Paid by Close column for that debt. The debt will not be included in the ratios or total obligations. DU includes the balance amounts for all non-mortgage debts that are marked as Paid by Close in the amount of funds required to close.

New subordinate liens

Determine manually whether the terms of the subordinate financing are acceptable under VA guidelines.

For a new subordinate lien that will close at the same time as the first mortgage, enter the actual loan balance in Line J, Subordinate Financing, in the Details of Transaction screen. If the new subordinate lien is a HELOC, use Line J to enter the amount drawn at the time of closing. If the borrower will not draw down a portion of the HELOC at closing (that is, if the outstanding balance at closing is \$0.00), do not enter an amount in Line J. For details, see [Line J. Subordinate Financing](#) on page 15.

Enter the principal and interest payment in the Proposed Housing Expense column as Other Financing (P&I).

Resubordinated liens

This section applies to refinance transactions where there is an existing lien (for example, a second mortgage) that will be resubordinated to the subject mortgage.

Enter the borrower's monthly payments in the Other Financing (P&I) field under Proposed Combined Housing Expenses. Entering the monthly payment there will facilitate the correct calculation of the qualifying ratios.

Enter the monthly payment and the outstanding balance in the Liabilities screen and match the resubordinated lien to the subject property.

If the resubordinated lien is a HELOC, enter the total amount drawn (or to be drawn at closing) in the Balance field. If the HELOC will have a zero balance at the time of closing, enter **0** in the Balance field in the appropriate row in the Liabilities screen.

Non-purchasing spouse in a community property state

If the property is located in a community property state, 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).

If a married veteran wants to obtain the loan in his or her name only, the veteran may do so without regard to the spouse's credit only in a non-community property state.

Additional Expenses

Additional expenses, such as alimony, child support, separate maintenance, or job related expenses should be selected from the drop-down list in the Additional Expenses section in the Liabilities screen. Follow VA guidelines to determine which expenses must be included.

Details of Transaction

Instructions for entering data in the Details of Transaction screen are provided below.

Line A. Purchase Price

Enter the sales price in this field.

Line B. Alterations, Improvements, Repairs

If the borrower elects to pay for required repairs per the Notice of Value, enter the amount of those repairs in this field.

Line C. Land

This field is not applicable for VA loans.

Line D. Refinance (including debts to be paid off)

If the loan is a refinance transaction, enter the combined balances of any mortgage debts and any other non-mortgage debts that will be satisfied by closing. This field should *not* include additional amounts such as late fees, interest on the existing loans, and so on, that are necessary to satisfy the mortgage debts. Those amounts should be entered in Line E.

Line E. Estimated Prepaid Items

Enter the total of prepaid items that the borrower will pay. For a refinance transaction, the amount in Line E should include any late fees and interest that were not included in the loan balances entered in Line D.

Line F. Estimated Closing Costs

Enter the total amount of allowable closing costs.

Line G. PMI, MIP, Funding Fee

Enter the entire dollar amount of the funding fee as required by VA guidelines.

Line H. Discount

Enter the entire amount of discount points that the borrower will be charged.

Line J. Subordinate Financing

If a subordinate lien will be obtained in a purchase money transaction, enter the amount of the lien in this field. Do not use this field for a refinance transaction.

Line K. Closing Costs Paid by Seller

Enter the total amount of closing costs from Line F that will be paid by the seller or by another party to the transaction. Do not include prepaid items or sales concessions such as non-realty items.

Line L. Total Other Credits

Line L is a summary field that shows the total of the credits that are entered in the Other Credits section at the bottom of the Details of Transaction screen.

Use the rows in the Other Credits section to enter the amount of the cash deposit on the sales contract and any borrower-paid fees, but *only* if these funds have already cleared the borrower's depository account and were not included in the depository accounts in the Assets screen. For details, see [Assets](#) on page 10.

Line M. Loan Amount (excluding PMI, MIP, Funding Fee Financed)

This field will prefill from the base loan amount entered in the Loan Amount field in the Type of Mortgage and Terms of Loan screen. This field is not editable. Changes to the base loan amount must be made in the Type of Mortgage and Terms of Loan screen.

Line N. PMI, MIP, Funding Fee Financed

Enter the amount of the funding fee that will be financed in the loan amount.

Line O. Loan Amount

The DO/DU user interface adds Lines M and N, and displays the total in Line O.

Line P. Cash From/To Borrower

The system calculates this figure based on the entries in the previous lines in the Details of Transaction screen. A positive value indicates the amount of cash the

borrower needs for closing. For a refinance transaction, a negative value indicates the amount of cash back the borrower will receive at closing.

Declarations

Answer each question **Yes** or **No** as appropriate for each borrower. The lender must ensure that VA guidelines have been met.

Note: An answer must be provided for Question L, “Do you intend to occupy the property as your primary residence?” before a loan casefile can be submitted to DU. Although all other answers in this section will default to No for a new loan casefile, lenders must ensure that these questions are answered correctly before submitting the loan casefile to DU.

Question A. Judgments

If the answer is Yes for any borrower, a message will appear in the DU Underwriting Findings report outlining the applicable processing requirements.

Question B. Bankruptcies

If the answer is Yes for any borrower, a message will appear in the DU Underwriting Findings report outlining the applicable processing requirements.

Note: If the credit report indicates a recent bankruptcy or does not include the discharge date, the loan will receive an Ineligible recommendation. For more information, see [Chapter 2, Underwriting Reports](#) on page 21.

Question C. Foreclosures

If the answer is Yes for any borrower, a message will appear in the DU Underwriting Findings report outlining the applicable processing requirements.

Note: If the credit report indicates a recent foreclosure, the loan casefile will receive an Ineligible recommendation. For more information, see [Chapter 2, Underwriting Reports](#) on page 21.

Question D. Party to lawsuit

If the answer is Yes for any borrower, a message will appear in the DU Underwriting Findings report outlining the applicable processing requirements.

Question E. Significant delinquent debt

Answer **Yes** or **No** as appropriate for all borrowers.

Note: If the credit report indicates recent late mortgage payments, the loan casefile will receive an Ineligible recommendation. See [Chapter 2, Underwriting Reports](#), on page 21 for additional information.

Question F. Current federal delinquent debt

If the answer is **Yes** for any borrower, a message will appear in the DU Underwriting Findings report outlining the applicable processing requirements.

Question G. Obligated to pay alimony or child support

If the borrower is obligated to pay alimony or child support, answer **Yes** and enter the debt in the Liabilities screen. The lender should refer to VA guidelines to document this obligation.

Question H. Down payment borrowed

Answer **Yes** or **No** as appropriate for all borrowers.

Question I. Endorser on a note

If the answer is **Yes** for any borrower, a message will appear in the DU Underwriting Findings report requiring documentation to support that the contingent liability will not have any impact on the borrower's ability to repay the loan, in accordance with VA guidelines.

Question J. Citizenship

Answer **Yes** or **No** as appropriate for all borrowers.

Question K. Permanent resident aliens

If the answer to Question J is **No**, Question K is required.

Question L. Intent to occupy

Answer **Yes** or **No** as appropriate for all borrowers. The law requires a veteran obtaining a VA guaranteed loan to certify that he or she intends to personally occupy the property as his or her home.

Question M. Previous ownership

Answer **Yes** or **No** as appropriate for all borrowers.

Information for Government Monitoring Purposes

This information is required by VA; however, it is not required for submission to DU.

Note: To access the Information for Government Monitoring Purposes section in the DO/DU user interface, scroll down to the bottom of the Declarations screen. The Information for Government Monitoring Purposes section is available in both the Quick 1003 and the Full 1003.

Additional Data screen

Property Appraised Value

For a pre-qualification, use the anticipated sales price of the property as the appraised value. Once the appraisal has been obtained, update the Appraised Value field in the Additional Data screen to reflect the correct appraised value, and then resubmit the loan casefile to DU.

Note: Lenders must follow all VA guidelines regarding obtaining and underwriting the Notice of Value for the subject property.

First Year Buydown Rate

If the loan will have a buydown, enter the interest rate that will be in effect for the first year of the loan. DU will use the note rate, not the first year buydown rate, to qualify the borrower. A message will appear in the DU Underwriting Findings report to confirm that the loan was underwritten at the note rate. Refer to the *VA Lender's Handbook* for information regarding buydowns.

Subject Property Type

Select one of the following options:

- Detached,
- Attached,
- Condominium,
- Planned Unit Development (PUD), or
- Manufactured Home.

Refer to VA guidelines for information on allowable property types.

Note: The following options are not available in conjunction with VA loan casefiles: High Rise Condo; Co-Operative; Detached Condo; and Manufactured Home: Condo/PUD/Co-Op. Use the Condominium option for a high-rise condominium. VA is currently considering co-operative units for a future release of DU. For details, contact the VA.

VA Government Information screen

The following data fields in the Government Information screen are required for all VA loan casefiles.

Agency Case Number

Enter the VA Loan Number for the loan casefile.

Note: The Agency Case Number is not required for submission to DU.

Co-Borrower Married to Borrower

Answer **Yes** to this question if the loan casefile includes a co-borrower who is married to the veteran borrower. If this field is not answered affirmatively and the loan casefile includes a co-borrower, the loan will receive an Ineligible recommendation. Refer to Chapter 7 of the *VA Lender's Handbook* for guidance on processing joint loan applications.

Entitlement Amount

Enter the amount of the veteran's entitlement as determined by the VA. The amount of base entitlement is on the Veteran's Certificate of Eligibility (COE) and shall not exceed \$36,000.

Note: As described in VA Circular 26-04-12, the Veterans Benefits Improvement Act of 2004 changed the maximum guaranty amount for certain loans in excess of \$144,000 to an amount equal to 25% of the conventional conforming loan limit for a single family residence. The maximum original loan amounts are 50 percent higher for first mortgages on properties in Alaska, Hawaii, Guam and the U.S. Virgin Islands. This higher amount also applies to VA loans in these areas.

For loan amounts in excess of \$144,000, DU will add the additional entitlement afforded the borrower based on the location of the property and transaction type. For more information, see [Appendix A, Maximum Loan Calculations](#), on page 27.

Note: Lenders should continue to enter the lesser of \$36,000 or the veteran's remaining base entitlement in the Entitlement Amount field. While DU will use the additional entitlement in its calculations, the entitlement should not be reflected in the Entitlement Amount field.

Monthly MCC

Enter any monthly tax credit that the borrower receives for mortgage interest on the current residence from a Mortgage Credit Certificate (MCC) issued by a federal, state, or local agency. DU adds the amount in this field to the borrower's income to calculate the residual income for borrower qualification.

Note: Use the Monthly MCC field only for tax credits received because of an MCC. All other housing allowances should be entered as other income in the Monthly Income and Combined Housing Expenses screen. An informational message in the DU Underwriting Findings report will indicate the use of an MCC.

Maintenance and Utilities

Enter the amount of monthly maintenance and utilities expense, calculated at 14 cents per square foot. DU will include the monthly maintenance and utilities expense in the residual income calculation.

Seller Concessions

Use the Seller Concessions field to enter the amount of seller concessions (other than normal discount points and closing costs) that will be paid by the seller of the property. Include all of the following financial concessions:

- The VA funding fee;
- Prepaid taxes and insurance;
- Extra discount points paid to provide permanent interest rate buydowns;
- Escrowed funds to provide temporary interest rate buydowns;
- The payoff of credit balances or judgments on behalf of the buyer; and
- Furniture, carpeting, decorator allowances, and giveaways or other sales incentives from the sales contract.

Note: This list is not all-inclusive. Any seller concession, or combination of concessions, that exceeds four percent of the established reasonable value of the property is considered excessive and is unacceptable for VA-guaranteed loans.

Total Taxes

In the Total Taxes field, enter the sum of all monthly federal, state, Social Security, local payroll taxes for the borrower(s) and, if non-taxable income was “grossed-up,” include the grossed-up portion. The amount of taxes must be calculated manually from actual paystubs or from a current IRS Publication “Circular E.”

CAIVRS

Enter the CAIVRS number that was assigned to each borrower. VA guidelines require lenders to perform a CAIVRS screening on each borrower and any co-borrower immediately upon receipt of a loan application. A message stating that the approval for this loan casefile is subject to obtaining a valid CAIVRS number will appear in the DU Underwriting Findings report for every VA loan casefile as a reminder to obtain a CAIVRS number.

Chapter 2: Underwriting Reports

DU creates two underwriting reports. This chapter describes these reports and explains the analysis the system performs to create them.

- The **DU Underwriting Findings** report summarizes the overall underwriting recommendation and lists the steps necessary to complete the processing of the loan casefile. The DU Underwriting Findings report is typically the first report viewed by an underwriter or a loan officer after the loan is submitted to DU.
- The **Underwriting Analysis** report contains key values used in the underwriting analysis. The Underwriting Analysis report is not a required VA form.

Each time a loan casefile is submitted to DU, the information in these reports is updated with information from the most recent submission. Each of these reports can be viewed online or printed.

The following information appears at the top of each report:

- Primary Borrower Name,
- Co-Borrower Name,
- Lender Case Number,
- Casefile ID,
- The date and time when the loan was submitted to DU,
- The underwriting recommendation, and
- The user ID of the user who submitted the loan to DU.

DU Underwriting Findings report

The DU Underwriting Findings report is divided into four sections. Each section contains a different type of message. The types of messages that appear in each section of the report are identified below.

Risk/Eligibility
This section contains messages pertaining to the risk assessment and the underwriting recommendation for the loan. If the loan is referred or ineligible, the specific referral or eligibility criteria appear in this section.
Potential Red Flags
Messages pertaining to potential red flags in the online loan application will appear in this section. Note: Red flag messages identify certain inconsistent or contradictory loan data for loans submitted to DU. While messages identify potential red flags, the messages do not affect the underwriting recommendation. And, although these messages can help lenders detect inconsistencies and potentially fraudulent transactions, neither the presence nor absence of

these messages alters the lender's responsibility to ensure accurate information in all areas of the loan process. These messages represent a value-added feature of DU and will not affect VA's evaluation of whether to guarantee a loan.

Verification Messages/Approval Conditions

The Verification Messages/Approval Conditions section lists follow-up processing steps the lender should complete to comply with VA requirements. Income and asset verification documentation waivers and any credit verification waivers appear here.

Observations

The Observations section contains information calculated or used by the system and is informational only.

Underwriting recommendations

The following underwriting recommendations are available for VA loan casefiles.

Approve/Eligible

An underwriting recommendation of Approve/Eligible indicates that the loan casefile was considered by the pmiAURA scorecard to have acceptable credit characteristics and that the loan casefile appears to meet VA loan program requirements. Lenders remain responsible for compliance with all VA guidelines. The VA has accepted Approve/Eligible recommendations in lieu of requiring a VA-approved underwriter to be responsible for the credit decision.

Note: Inaccurate or unverified data will result in invalidation of the risk classification by VA. Under certain circumstances it could also result in a finding of material misrepresentation, which could affect the validity of the guaranty.

Lenders should comply with all of the Verification Messages/Approval Conditions listed on the DU Underwriting Findings report and should document the loan file accordingly. Lenders must review the credit report to confirm that the data that DU evaluated with respect to the borrower's credit history was accurate. If the borrowers had a bankruptcy or foreclosure within the most recent 24 month period, or a mortgage delinquency within the most recent 12 month period that was not reported on the credit report or that was reported incorrectly, the underwriting recommendation should be downgraded manually to Refer/Eligible and should be reviewed by a VA-approved underwriter to ensure that the loan application meets VA credit standards.

Approve/Ineligible

Loan casefiles that receive an Approve/Ineligible recommendation appear to meet VA credit standards but do not appear to meet certain VA guidelines, as required by law or regulation. Lenders remain responsible for compliance with all VA guidelines. Lenders will receive detailed messages that will explain why the loan casefile did not appear to meet the requirements. Loans that receive a recommendation of Approve/Ineligible may still be eligible for VA guaranty. VA loans will receive an Ineligible recommendation for all of the following reasons that apply:

- Recent late mortgage payments, bankruptcies, or foreclosures;
- Borrower and co-borrower not married to each other;
- Loan amount exceeds the maximum allowed based on the borrower's VA entitlement and Ginnie Mae's maximum loan requirement;
- Insufficient reserves on a multi-unit property; and
- Financed funding fee in excess of the total funding fee.

To ensure eligibility, a VA-approved underwriter must analyze the DU Underwriting Findings report for loans that receive an Approve/Ineligible recommendation, and must determine that the reason for the ineligibility is one that can be resolved in a manner that complies with VA program requirements. The VA-approved underwriter will need to document the extenuating circumstances or other factors that were evaluated in making the decision to approve the loan in the remarks section of VA Form 26-6393 Loan Analysis. The VA-approved underwriter will not be required to re-underwrite the entire loan, but must rather address each reason the loan casefile received an ineligible recommendation and explain why the loan casefile is now eligible for VA guaranty. Loan casefiles that receive a recommendation of Approve/Ineligible will receive the benefit of all other Approve documentation and credit waivers.

Lenders may also attempt to correct the issues that caused the loan casefile to be ineligible, and resubmit the loan in an attempt to obtain an Approve/Eligible recommendation.

Refer/Eligible

An underwriting recommendation of Refer/Eligible indicates that the loan casefile must be manually underwritten by a VA-approved underwriter in accordance with VA guidelines.

Refer/Ineligible

An underwriting recommendation of Refer/Ineligible indicates that the loan casefile must be manually underwritten by a VA-approved underwriter in accordance with VA guidelines. Further, the Ineligibility recommendation indicates that the loan casefile does not meet one or more of VA's program requirements.

Note: If the loan receives a Refer recommendation because of data entry errors, the lender should correct the information and resubmit the loan.

Verification Messages/Approval Conditions

Approval conditions and messages related to the required documentation for the loan casefile appear in this section of the DU Underwriting Findings report. By using DU for VA loan casefiles, lenders can take advantage of several credit waivers and documentation variances. The level of credit waivers and documentation depends on the overall risk assessment of the loan casefile.

Some waivers are available only for selected loan casefiles that meet more selective risk requirements. If the system does not grant specific credit or documentation waivers, lenders will be required to meet all standard credit and documentation requirements as described in the *VA Lender's Handbook*.

In addition to providing an Approve or Refer recommendation, DU incorporates the following VA program rules and will provide specific messages on the DU Underwriting Findings report as appropriate:

- maximum loan amount based on remaining entitlement and Ginnie Mae's secondary market requirements,
- required residual income limitations,
- loan product and mortgage characteristics, and
- seller concession limits.

In addition to the messages that specify the documentation that is required, the Verification Messages/Approval Conditions section provides a detailed description of the debts, assets, and sources of income used in qualifying. This information can help to reconcile the data on the loan application.

Documentation waivers

Depending on the DU recommendation, borrowers may be eligible for certain documentation waivers. The chart below identifies certain waivers; for a complete list, refer to *VA Lender's Handbook*, Chapter 4, Section 8.

Available Waivers	
Credit-related waivers	<ul style="list-style-type: none">• No verification of rent required.• No explanation for discrepancies in reported debt.
Income/employment-related waivers	<ul style="list-style-type: none">• Self-employed borrowers do not need to produce a profit and loss (P&L) statement or a balance sheet for the business.• Employment may be verified with paystubs and telephone confirmation (non self-employed).• No explanation is necessary for gaps in employment less than 60 days.

Available Waivers	
Ratio-related waivers	<ul style="list-style-type: none"> • No explanation for qualifying housing or debt ratios exceeding VA guidelines. • Expanded debt ratio limits are imposed based on residual income and reserves.
Asset-related waivers	<ul style="list-style-type: none"> • Verification by most recent monthly or quarterly account statement. • Verification by most recent two months or quarterly statement.

Observations

The Observations section of the DU Underwriting Findings report provides, among other information, the following data for a VA loan:

- Residual income required,
- Actual residual income,
- Maximum loan amount (Ginnie Mae), and
- Agency Case Number (VA Loan Number).

Underwriting Analysis report

The Underwriting Analysis report summarizes the underwriting analysis that was performed on the loan casefile. The Underwriting Analysis report appears below the DU Underwriting Findings report. To view the Underwriting Analysis report, scroll down to the bottom of the report screen.

The top of the Underwriting Analysis report shows general information about the loan, including property information and calculated values such as the LTV and the CLTV.

The following sections of the report provide more detail.

Income

On the left side of the report, the totals of all borrowers' income amounts are shown by income type. If there is positive net rental income from all rental properties or positive cash flow on the subject property (for two- to four-unit properties), this income will also appear in this section.

Qualifying Ratios and Expense Ratios

To the right of the income information, the Underwriting Analysis report lists the ratios that DU calculated. The qualifying ratios are those on which the ratio analysis is performed.

Proposed Monthly Payment

Near the bottom of the Underwriting Analysis report, the proposed monthly payment information is detailed using the note rate (for a fixed-rate mortgage), or the qualifying rate (for an ARM).

The housing payment detail displayed is from the Income and Housing screen, except for the P&I, which is calculated by DU. Next to the housing payment is any negative net rental payment, the sum of all payments the borrowers are making to creditors (except for omitted liabilities), and the total of the current primary residence housing payments.

Funds

Funds information appears at the bottom of the Underwriting Analysis report. The following information is available:

- Required Funds – Calculated from the Details of Transaction screen plus any debt to be paid by closing that is not attributed to a property being sold.
- Available Funds – The sum of the liquid assets listed on the loan application.
- Cash Back to the Borrower – Calculated from the Details of Transaction screen.
- Net Cash Back – Cash back to the borrower minus net required funds.
- Reserves – Includes excess available funds after required funds are subtracted; excludes reserves attributed to cash back from a cash-out refinance transaction.
- Month Reserves – Reserves divided by the total monthly housing payment.

Errors in the credit report

For all loans (including those with Approve recommendations), the lender must review the credit report to determine whether the evaluation was based on accurate data. Significant errors in the borrower's credit file could have an effect on the risk analysis of the loan casefile.

If there are significant errors (such as accounts that do not belong to the borrower) or omissions in the credit report, the lender must obtain documentation that supports the error. If the errors or omissions are *significant* and/or *derogatory* in nature, the lender's VA-approved underwriter should evaluate the borrower's credit and capacity manually in conjunction with all other risk factors in the loan casefile.

Appendix A: Maximum Loan Calculations

Maximum loan amount calculation for Regular Cash-Out Refinance Transactions

DU performs the following calculations to determine the maximum loan amount for a regular cash-out refinance transaction. Most values used in these calculations are taken from the Details of Transaction screen in DU. Values that are taken from the Additional Data (AD) or VA Government Information (GV) screens are indicated below.

In determining the maximum loan amount, DU will use the lesser of the two calculations shown below.

Maximum loan amount based on appraised value calculation

$$\begin{array}{r} \text{Property Appraised Value (AD)} \\ \hline \times \quad 90\% \\ \hline = \\ \hline + \quad \text{VA Funding Fee} \\ \hline = \\ \hline \end{array}$$

Note: VA guidelines allow the cost of any energy efficient items, up to a \$6,000 maximum, to be included in the maximum loan calculation. However, DU does not capture the cost of energy efficient items; therefore, the maximum loan calculation may need to be performed manually.

Maximum loan amount based on entitlement calculation

$$\begin{array}{r} \text{Entitlement Amount (GV)} \\ \hline \times \quad 4 \\ \hline = \\ \hline \end{array}$$

Note: The maximum guaranty on cash-out refinance loans is \$36,000, even for loans greater than \$144,000. If an existing VA loan on the same property will be paid off, the entitlement used for the existing loan can be restored for purposes of obtaining the new loan.

Maximum loan amount calculation for Interest Rate Reduction Refinance Loans (IRRRL)

As described in the *VA Lender's Handbook*, "An IRRRL is a VA-guaranteed loan made to refinance an existing VA-guaranteed loan, generally at a lower interest rate than the existing VA loan, and with lower principal and interest payments than the existing VA loan."

Generally, no appraisal, credit information or underwriting is required on an IRRRL, and any lender may close an IRRRL automatically; therefore, these loans are typically handled manually.

Exceptions and specific requirements are explained in the *VA Lender's Handbook*, Chapter 6.

VA Form 26-8923, IRRRL Worksheet, should be used to calculate the maximum loan amount.

Maximum loan amount calculation for purchase transactions

DU performs the following calculations to determine the maximum total loan amount to obtain a 25% guarantee for a purchase transaction, based on entitlement available and the purchase price or reasonable value (whichever is less). Most values used in these calculations are taken from the Details of Transaction screen in DU. Values that are taken from the Additional Data (AD) or VA Government Information (GV) screens are indicated below.

Calculation A

Calculation A applies only to veterans with full entitlement and properties that have a purchase price/reasonable value that is *greater than* \$144,000.

$$\begin{array}{r} \text{Down Payment Amount} \\ \hline + \\ \text{Maximum Guaranty (25\% of the conforming loan limit for a single} \\ \text{family residence. The higher limits for properties in Guam, Hawaii,} \\ \text{Virgin Islands, and Alaska apply to VA loans.)} \\ \hline = \\ \hline \times \quad 4 \\ \hline = \text{Maximum Loan Amount} \end{array}$$

Calculation B

Calculation B is used for properties that have a purchase price/reasonable value that is less than or equal to \$144,000. It applies to veterans with full or remaining entitlement.

$$\begin{array}{r} \text{Entitlement Available Amount (GV)} \\ + \\ \text{Down Payment Amount} \\ \hline \times \quad 4 \\ \hline = \text{Maximum Loan Amount} \end{array}$$

Calculation C

Calculation C is used only if the entitlement amount is less than \$36,000.

For properties valued at *greater than* \$144,000:

$$\begin{array}{r} \text{Lesser of Purchase Price or Appraised Value} \\ \hline \times \quad 75\% \\ \hline = \\ \hline + \quad \text{Entitlement Amount (GV)} \\ \hline + \quad \text{Maximum Guaranty (25\% of the conforming loan limit for a single} \\ \quad \text{family residence. The higher limits for properties in Guam, Hawaii,} \\ \quad \text{Virgin Islands, and Alaska apply to VA loans.)} \\ \hline = \\ \hline \end{array}$$

For properties valued at *less than or equal to* \$144,000:

$$\begin{array}{r} \text{Lesser of Purchase Price or Appraised Value} \\ \hline \times \quad 75\% \\ \hline = \\ \hline + \quad \text{Entitlement Amount (GV)} \\ \hline = \\ \hline \end{array}$$

Entitlement calculation details

The entitlement calculation will be:

- 1) Calculation A for all loans with a purchase price greater than \$144,000 and full entitlement.
- 2) Calculation B for all loans with a purchase price less than or equal to \$144,000 and full entitlement.
- 3) The greater of Calculations A or C with a purchase price greater than \$144,000 and less than full entitlement.
- 4) The greater of Calculations B or C with a price less than or equal to \$144,000 and less than full entitlement.

Ginnie Mae maximum loan amount for VA loans

The Office of Federal Housing Enterprise Oversight announced the maximum 2008 conforming loan limit will remain at the 2007 level. Effective January 1, 2008, the maximum VA loan eligible for pooling will remain \$417,000. For properties located in the high-cost areas of Alaska, Guam, Hawaii, and the Virgin Islands, the maximum loan amount remains \$625,500.

Based on the 2008 conforming loan limits, the guaranty amount remains \$104,250 (25 percent of the limit of \$417,000) or \$156,375 (25 percent of the limit of \$625,500).

In the future, as conforming loan limits increase, the maximum VA loan amount eligible for pooling will increase accordingly. Ginnie Mae will continue to require that the combination of the down payment and the amount of available VA guaranty equals at least twenty five percent of the lesser of the purchase price or Notice of Value (NOV).

Maximum loan amount calculations performed by DU

DU will calculate the maximum loan amount as described earlier in this section, beginning on page 27. This will help in evaluating whether the loan amount meets the Ginnie Mae pooling and minimum guaranty requirements. Loan casefiles that exceed Ginnie Mae's maximum loan limit will receive an Ineligible recommendation.