



SECTION 1:	CODING									
PROGRAM CODES:	30- and 25-Year Fixed term: 4500-00 15-Year Fixed Rate Term: 4600-00 3/1 ARM: 4857-00 5/1 ARM: 4858-00 Temporary Buydown codes: <table border="1"> <thead> <tr> <th>Buydown Term</th> <th>Lender Paid</th> <th>Seller Paid</th> </tr> </thead> <tbody> <tr> <td>2/1 Buydown</td> <td>4519L-00</td> <td>4519S-00</td> </tr> <tr> <td>1/0 Buydown</td> <td>4520L-00</td> <td>4520S-00</td> </tr> </tbody> </table>	Buydown Term	Lender Paid	Seller Paid	2/1 Buydown	4519L-00	4519S-00	1/0 Buydown	4520L-00	4520S-00
Buydown Term	Lender Paid	Seller Paid								
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1/0 Buydown	4520L-00	4520S-00								
Second Lien Program Codes:	Not applicable									
SECTION 2:	LTV/CLTV/LOAN AMOUNTS BY DOC TYPE									
FULL DOCUMENTATION:										
Purchase:	<table> <tr> <td><u>LTV</u></td> <td><u>CLTV</u></td> <td><u>OCC</u></td> <td><u>Property</u></td> </tr> <tr> <td>100%</td> <td>N/A</td> <td>Owner</td> <td>1-4 Units*</td> </tr> </table> <p>* See property section below for restrictions on 2-4 units. Condos in Florida not permitted.</p> <p>Note: Loan amounts >\$417,000 are limited to one unit properties. See maximum loan amount section below for additional Jumbo loan (>\$417,000-\$650,000) requirements.</p> <p>See the Maximum Loan Amount section below for instructions on calculating the maximum loan amount.</p>	<u>LTV</u>	<u>CLTV</u>	<u>OCC</u>	<u>Property</u>	100%	N/A	Owner	1-4 Units*	
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SECTION 3:	PROGRAM PARAMETERS									
MINIMUM LOAN AMT:	\$40,000									
MAXIMUM LOAN AMOUNT:	<p>NOTE: The Department of Veteran Affairs has released the new loan limits for High Cost Counties for 2010. These limits apply to all loans <u>closed</u> January 1, 2010 through December 31, 2010.</p> <p>These new loan limits are posted on the VA Website. http://www.homeloans.va.gov/docs/2010_county_loan_limits.pdf</p>									

MAXIMUM LOAN AMOUNT: (cont'd)

Maximum Loan amount for a regular purchase transaction is \$417,000 (including VA funding fee)

VA Jumbo maximum loan amount: >\$417,000 to \$650,000 (including the VA funding fee)

- The amount of available VA Entitlement must be 25% of the lesser of the sales price or appraised value. If the Veteran does not have sufficient eligibility to cover 25% of the lesser of the sales price or the appraiser value, or if the total loan amount is higher than the county limit for a one unit dwelling, a down payment would be required to meet the 25%.
- The maximum guaranty that VA will provide is 25% of the maximum county limits. The maximum loan amount for a 100% LTV/CLTV purchase transaction with full entitlement, including the VA Funding Fee, is \$650,000.
- Only one unit properties are permitted.
- Only the 30 year fixed rate term is permitted.
- ARMs are not permitted.
- Buydowns are not permitted.
- Subordinate financing is not permitted.
- 720 credit score is required for ALL borrowers
- 6 months PITI is required for reserves.
- See rate sheet for any pricing adjustments.

Streamline Refinance (IRRRL):

- **Maximum Loan Amount \$417,000 including VA funding fee.**
- (VA to VA) the maximum loan amount is calculated by completing the VA Interest Rate Reduction Refinancing Worksheet. (VA Form 26-8923)

Maximum loan amount for cash out refinance:

- Appraised value x 90%
- The maximum loan amount for cash out refinance is \$417,000 including funding fee
- UW must refer to the VA Handbook in any case where the Veteran does not have full entitlement to ensure a 25% guaranty
- Note: payoff of any non-VA loan is considered a cash out refinance.

ALLOWABLE TERMS:

15, 25 & 30 year fixed rate term
 Only the 30 year term is permitted for Jumbo loan amounts. (>\$417,000 to \$650,000)
 3/1 & 5/1 ARMs

CASH PROCEEDS:

No restrictions

SPECIAL PROGRAM REQUIREMENTS:

VA Loan Guaranty:

- Veterans are required to have sufficient entitlement on a Certificate of Eligibility to cover 25% of loan amount.
- The maximum guaranty that VA will provide is 25% of the maximum county limits. The maximum loan amount for a 100% LTV/CLTV purchase transaction with full entitlement, including the VA Funding Fee, is \$650,000.
- A Certificate of Eligibility can be requested at Veterans Information Portal website <https://vip.vba.va.gov/portal/VBAH/Home> - (requires registration, user name + password): Select "WebLGY" then select "Eligibility" and input the veteran's information from VA form 26-1880.
- When possible the system will issue a Certificate of Eligibility immediately; otherwise, an application for the Certificate of Eligibility must be completed with information from VA form 1880. Both the completed, signed form 26-1880 and a copy of the DD214 must be uploaded to the VA system with the application. The certificate will be emailed to the requestor in 2-3 days.
- If the form 26-1880 and DD214 are not uploaded, the processing time may be delayed approximately 10 days.
- Veterans receiving VA pension for non-service-connected disability will require prior approval from VA.

SPECIAL PROGRAM REQUIREMENTS: (cont'd)
Funding Fee:

- A VA Funding Fee is required on all transactions (purchases and refinances) per the charts below:

Purchase:

Type of Veteran	Dow Payment	% of First Time Use	% of Subsequent Use
Regular Military	None	2.15%	3.30% *
	5% or more (up to 10%)	1.50%	1.50%
	10% or more	1.25%	1.25%
Reserves/ National Guard	None	2.40%	3.30% *
	5% or more (up to 10%)	1.75%	1.75%
	10% or more	1.50%	1.50%

Cash-out Refinance:

Type of Veteran	% for First Time Use	% for Subsequent Use
Regular Military	2.15%	3.30% *

* The higher subsequent use fee does not apply to these types of loans if the veteran's only prior use of entitlement was for a manufactured home loan.

Type of Loan	Percentage for Either Type of Veteran Whether First Time or Subsequent Use
Interest Rate Reduction Refinancing Loans	.50%

The following persons are exempt from paying the funding fee:

- Veterans receiving VA compensation for service-connected disabilities.
- Veterans who would be entitled to receive compensation for service-connected disabilities if they did not receive retirement pay.
- Veterans who are **rated by VA as eligible** to receive compensation as a result of pre-discharge disability examination and rating.
- Surviving spouses of veterans who died in service or from service-connected disabilities (whether or not such surviving spouses are veterans with their own entitlement and whether or not they are using their own entitlement on the loan).
- A surviving spouse who has not remarried MAY be eligible for an exemption.
- VA must confirm veteran's exemption from paying the funding fee on VA Form 26-8937. (VA Benefit Related Indebtedness form)
- Veterans receiving VA pension for non-service-connected disability will require prior approval from VA.

ARM ADJUSTMENTS:

The index is the (CMT), the weekly average yield on United States Treasury Securities adjusted to a constant maturity of one year.

ARM loans adjust as follows:

	<u>Fixed Term</u>	<u>Adjustment</u>	<u>Life Cap</u>
3 Year	36 months	1%/annual	5%
5 Year	60 months	1%/annual	5%

- The loans are not convertible.
 - The loan may be assumable subject to lender approval.
- On the 3 year and 5 year ARMs borrowers are qualified at the start rate (note rate) regardless of the LTV
 Maximum loan amount \$417,000 on ARMs (including funding fee)

INTEREST ONLY OPTION:

Not applicable

TEMPORARY BUYDOWNS:	<ul style="list-style-type: none"> • Lender & seller paid buy downs are permitted on the 30 year fixed rate term. • 2/1 & 1/0 buy downs are permitted • Buydowns are not permitted on ARM programs. • Purchase transactions only. • Increases can not exceed 1% per year • Signed buy down agreement is required • Borrowers are qualified based on note rate. • As an exception a borrower may be qualified at the start rate if an increase in income used to qualify can be documented with a confirmed future promotion or a wage percentage increase is guaranteed by labor contract and if the documented increase is sufficient to cover the payment increases. • Buydowns are not permitted for loan amounts >\$417,000
PREPAYMENT PENALTY:	Not applicable.
SECTION 4:	BORROWER ELIGIBILITY
FIRST TIME HOMEBUYER:	<ul style="list-style-type: none"> • Veterans do not have to be a first time homebuyer, but first time homebuyers are permitted as long as the VA loan parameters are met.
NON-OCCUPANT CO-BORROWER:	Not permitted.
PERMANENT RESIDENT ALIEN:	<ul style="list-style-type: none"> • Allowed under the same terms as US citizens. • Permanent resident aliens must provide proof of their residency (i.e. green card).
NON-PERMANENT RESIDENT ALIEN:	Not permitted
FOREIGN NATIONAL:	Not permitted
NON-ARMS LENGTH TRANSACTIONS:	<ul style="list-style-type: none"> • A non-arms length transaction is defined as a direct relationship between any of the parties to the transaction including, buyer, seller, employer, lender, broker, appraiser, etc. • Non-arms length transactions may be acceptable provided there is adequate verification the borrower is making the required minimum down payment from their own funds, there is an executed sales contract, the appraisal supports the value and the appraiser comments on whether the market value is affected by the relationship of the parties. • A non arms length transaction may not be used to bail out a family member or any other owner with an established relationship to the borrower from a delinquent mortgage. <ul style="list-style-type: none"> • The title commitment may not show any evidence of foreclosure proceedings or NOD. • If the seller is a corporation, partnership or any other business entity, there must be proof that the borrower is not an owner of the business entity selling the subject property.
NUMBER OF OTHER PROPERTIES:	<ul style="list-style-type: none"> • VA will not guarantee more than one property per borrower unless the Veteran has sufficient remaining entitlement and/or equity to ensure a 25% guarantee, otherwise a VA exception is required. • An exception may be made by VA if the veteran has obtained VA one time exemption to allow the Veteran's eligibility to be restored without disposing of the property. The Veteran must apply directly to VA for this exemption. • See "Qualifying" section below for primary residence conversions to investment or 2nd home, or pending sales of departure property.

SECTION 5:	CREDIT CRITERIA
UNDERWRITING:	<ul style="list-style-type: none"> • DU/LP approve/eligible or accept is required on this program. • Refer is allowed under certain guidelines only, see credit requirement below. • Manual underwriting is not permitted (except where noted below) • DTI maximum 50% regardless of AUS recommendation. • Veterans receiving VA pension for non-service-connected disability will require prior approval from VA.
CREDIT SCORES:	<ul style="list-style-type: none"> • A 3 bureau merged in-file report or full credit report (RMCR) must be obtained that contains at least 2, but preferably 3 credit scores for each borrower. • A “representative score” (lower of 2, middle of 3) will be chosen for each borrower on the loan. • A minimum 620 credit score is required for all borrowers, regardless of AUS approval. This applies to all purchases and cash-out refinances. • A minimum <u>640 credit score</u> is required for <u>each and every borrower</u> on all IRRRL transactions. • A minimum 720 credit score is required for all borrowers with loan amounts > \$417,000. • A co-borrower with no score is not permitted. • Borrowers with no credit score or who have too few credit trade lines to obtain a credit score are not permitted. Non-traditional credit is not accepted.
CREDIT REQUIREMENTS:	<ul style="list-style-type: none"> • If the loan is underwritten by DU or LP and the result is Approve/Eligible or Accept, the findings report may be followed for credit requirements and inquiry explanations are not required, except where noted below. • Non-traditional credit is not allowed. • The borrowers housing history must be documented for the last 12 months on a credit report, with a verification of rent directly from the landlord, with 12 months canceled checks or a verification of mortgage from the loan servicer. • The borrowers’ mortgage history must show 0X30 day lates in the last 12 months for all transactions regardless of AUS. • Refer responses permitted with the following criteria only: <ul style="list-style-type: none"> • Chapter 7 Bankruptcy: Must be discharged 3 years • Chapter 13 Bankruptcy: Must be discharged 1 year • Foreclosure: Must be discharged for 5 years • Maximum DTI 45% (DTI > 41% must meet VA guidelines outlined in the Ratios section below) • Temporary Buydowns not permitted • Maximum loan amount \$417,000. High Balance not permitted. • Major derogatory credit (i.e. judgments, collections, etc.) requires a written explanation. • Inquiries on the credit report for the last 90 days must be explained in writing. • Court ordered judgments must be paid off before a borrower will be eligible for a VA loan unless the borrower has agreed to a payment plan with the creditor and has been making timely payments per the payment plan. • Short payoffs or settlements on a mortgage lien are considered the same as a foreclosure. Short payoffs and settlements on a mortgage lien on the credit report will NOT be eligible for financing for 5 years from the date the settlement or short pay was accepted. • Consumer credit counseling is not permitted. • If the borrower is currently delinquent on any federal debt (i.e. VA loan, title 1 loan, federal student loan, Small Business Administration loan, delinquent federal taxes) or has a lien placed against their property for a debt owed to the Federal government, they are not eligible for VA guarantee until the delinquent account is brought current, paid or otherwise satisfied. • Non purchasing spouse credit reminder: 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).

CREDIT REQUIREMENTS:
(cont'd)

Loan modifications:

- Refinance transactions on previously modified loans are not permitted.
- New purchase transactions where the borrower's previous loan was modified and the property is being retained as a 2nd home or investment property are not permitted.
- New purchase transactions where the borrower's previous loan was modified and the property is being sold should be treated with caution and reviewed for delinquencies and short payoffs.

QUALIFYING:

- **On the 3/1 ARM and 5/1 ARM** the borrower is qualified based on the note rate.
- **On loans with buy downs**, the borrower is qualified based on the note rate.
- **Child support/alimony** payments are included in the DTI regardless of the number of payments remaining.
- **Installment debt with <10 payments remaining** are not included in the DTI unless the payment amount is substantial enough to affect the borrowers DTI ratio. VA considers payments >\$100.00 to be substantial.
- Loans secured by a liquid asset (i.e. 401K) are not included in the debt calculation.
- **Deferred student loans will be included** in the DTI unless the borrower can prove that payments will not start for at least 12 months after closing
- **Paying revolving debt** off to qualify is permitted provided the borrower has the funds in verified assets to pay the account(s) and the payoff is documented (HUD-1).
- **Lease payments** will be included in the DTI regardless of the number of payments remaining in the lease.
- **Co-signed obligations** will not be included in the DTI if there is evidence the primary borrower has made payments as agreed for the last 12 months (copies of canceled checks, front and back). A copy of the note must also be provided to show that the person making the payments is also an obligor on the note. Being placed on title only is not sufficient.
- **Contingent liabilities** (i.e. property settlement "buy-outs" or court-ordered assignment of debt) will not be included in the DTI if there is proof the debt belongs to another person. A copy of a court order, divorce decree or property settlement may provide proof of the contingent debt.
- New purchase transactions where the borrower's previous loan was modified and the property is being retained as a 2nd home or investment property are not permitted.

Departure residence policy:

- If the Veteran is **converting a principal residence to an investment property** upon purchase of a new principal residence, the following requirements apply:
 - Both the current and the proposed monthly housing expense must be used to qualify
 - Rental income may not be used to offset the mortgage payment
 - 6 months PITI reserves for both properties must be provided
- The following exceptions allow the Veteran to qualify using 75% of gross rental income to offset the mortgage payment and the reserve requirement is waived:
 - The Veteran is relocating with a new employer, or is transferred by the current employer to an area not within a reasonable and locally recognized commuting distance, or
 - The veteran has documented equity of at least 30% in the existing property. Equity must be documented with an HVCC compliant interior/exterior appraisal.
- If the Veteran's **current principal residence is pending sale** but it will not close before the purchase of a new principal residence:
 - The PITI on both the pending sale and the subject new property must be included in qualifying the borrower, and the following must be documented:
 - 6 months PITI reserves for both properties **OR**
 - Reserves totaling at least 2 months PITI for both properties if able to document at least 30% equity in the existing property. Equity must be documented with an HVCC compliant interior/exterior appraisal.
 - Note: the PITI of the pending sale does not need to be included in qualifying the borrower if 6 months reserves (or 2 months with documented equity) for both properties is documented and the following is provided:
 - Executed sales contract for the current residence
 - Confirmation that any financing contingencies are cleared

QUALIFYING:
(cont'd)

- If the Veteran is **converting a current principal residence to a 2nd home** upon purchase of a new principal residence:
 - Both the current and proposed monthly housing expense must be used to qualify; and
 - Minimum 6 months PITI reserves for both properties are required **OR**
 - Reserves totaling at least 2 months PITI for both properties if able to document at least 30% equity in the existing property. Equity must be documented with an **HVCC compliant interior/exterior appraisal**.

RATIOS:

The maximum DTI ratio is 41%.

A 5% ratio variance is permitted for in-service Veterans.

Higher ratios may be permitted at the discretion of the underwriter. Compensating factors must be listed on VA Loan Analysis (VA form 26-6393). Veteran must have 120% of required residual income verified.

The maximum DTI is 50% regardless of AUS approval (45% with AUS Refer, see "Credit Requirements" section above)

CALCULATING LTV/CLTV/VALUE:

Maximum loan amount is based on percentage of VA Eligibility as documented on Certificate of Eligibility.

For a purchase transaction where the veteran has full entitlement, the maximum LTV is 100% based on the VA appraiser's Estimate of value.

NOTE: The maximum loan amount for veterans with full eligibility and no down payment is \$650,000 including the VA Funding Fee.

Re-negotiated purchase agreement policy:

- Stearns will not accept re-negotiated purchase agreements that increase the sales price after the appraisal has been completed if:
 - The appraised value is higher than the contracted sales price provided to the appraiser, and
 - The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received, and
 - The only change to the purchase agreement is an increase in sales price.
- If the purchase agreement is re-negotiated after the completion of the appraisal, the loan to value will be based on the lower of the original purchase price or the appraised value, unless:
 - A re-negotiation of seller paid closing costs and/or pre-pays occurs if customary for the market and supported by comparables, not to exceed standard seller contributions, or
 - An amended purchase agreement for a new construction property is obtained due to improvements that impact the value. In the event of such changes, an updated appraisal must be obtained to verify the value of the modifications.

For a Streamline Refinance (IRRRL): Maximum loan amount \$417,000 (including VA funding fee). (VA to VA) the maximum loan amount is calculated by completing the VA Interest Rate Reduction Refinancing Worksheet. (VA Form 26-8923)

Maximum loan amount for cash out refinance:

- Appraised value x 90%
- The maximum loan amount for cash out refinance is \$417,000 including funding fee
- UW must refer to the VA Handbook in any case where the Veteran does not have full entitlement to ensure a 25% guaranty
- Note: payoff of any non-VA loan is considered a cash out refinance.

SEASONING:

At the time of application, the borrower must have made at least **6 payments** within the month due on the VA mortgage being refinanced.

REFINANCES:

VA has only two types of refinances: Streamline (IRRRL) and cash-out

Streamline Refinances: (IRRRL)

- **Existing loan must be a VA loan.** At the time of application, the borrower must have made at least **6 payments** within the month due on the VA mortgage being refinanced.
- An IRRRL must bear a lower interest rate than the loan it is refinancing unless the loan it is refinancing is an ARM.
- The principal and interest payment on an IRRRL must be less than the principal and interest payment on the loan being refinanced unless one of the following applies:
 - the IRRRL is refinancing an ARM, or
 - the term of the IRRRL is shorter than the term of the loan being refinanced.
- If the monthly payment increases by 20% or more, loan must be credit qualified.
- Original loan term of existing VA loan must be 30 years
- The mortgage payment on the IRRRL must be at least \$50.00 less than the current payment.
- Minimum **640** credit score required on streamline refinances. Credit report is required to validate credit score.
- A verbal VOE is required at funding for streamline refinances.
- **A conventional appraisal (full interior/exterior) is required on all VA IRRRLs. Appraised value must be supported and be equal to or greater than the total loan amount (base loan amount plus VA funding fee). The veteran can NOT be charged for the cost of this appraisal. This appraisal must comply with HVCC.**
- See VA IRRRL Checklist for required file documentation.
- The loan amount is calculated on VA form 26-8923.
- Loan proceeds may only be applied to paying off the existing VA loan and to the costs of obtaining or closing the IRRRL. Therefore, the general rule is that the borrower cannot receive cash proceeds from the loan. If necessary, the refinancing loan amount must be rounded down to avoid payments of cash to the veteran.
 - In a limited number of situations, the borrower may receive cash at closing. Some examples of situations in which VA does not object to the borrower receiving cash are:
 - Computational errors
 - Changes in final payoff figures
 - Upfront fees paid for the appraisal and/or credit report that are later added into the loan, and
 - refund of the escrow balance on the old loan. This often occurs when a party other than the present holder originates the loan.
 - VA does not set a "ceiling" or a specific dollar limitation on cash refunds resulting from adjustments at closing. However, if a situation involves a borrower receiving more than \$500, consult VA as to its acceptability. Lenders and VA personnel should exercise common sense when assessing such situations and draw from basic program information to know the difference between an equity withdrawal and cash from unforeseen circumstances.

Cash-out Refinances:

- Paying off the outstanding balance of the existing first mortgage, including any prepayment penalty.
- Payoff of any non-VA loan is considered a cash out refinance.
- Paying off any subordinate lien.
- Financing of closing costs.
- Appraised value x 90%
- The maximum loan amount for cash out refinance is \$417,000 including funding fee
 - UW must refer to the VA Handbook in any case where the Veteran does not have full entitlement to ensure a 25% guaranty

**SUBORDINATE
FINANCING:**

- Subordinate financing is not permitted for loan amounts >\$417,000.
- Secondary financing is acceptable as long as long as the Veteran is not placed in a substantially worse position than if the entire amount borrowed had been guaranteed by VA.
- The following requirements must be met:
 - ❖ The lender must submit documentation disclosing the source, amount, and repayment terms of the second mortgage and agreement to such terms by the veteran and any co-obligors.
 - ❖ The second mortgage must be subordinated to the VA-guaranteed loan, that is, the second mortgage must be in a junior lien position relative to the VA loan.
 - ❖ Proceeds of the second mortgage **may** be used for a variety of purposes, including but not limited to closing costs or a down payment to meet the secondary market requirements of the lender but **may not** be used to cover any portion of a down payment required by VA to cover the excess of the purchase price over VA's reasonable value.
 - ❖ The veteran must qualify for the second mortgage which is underwritten as an additional recurring monthly obligation.
 - ❖ The rate on the second mortgage may exceed the rate on the VA-guaranteed first, however, it may not exceed industry standards for second mortgages.
 - ❖ The second mortgage should not restrict the veteran's ability to sell the property any more than the VA first mortgage. That is, it should be assumable by creditworthy purchasers.
 - ❖ There should be a reasonable grace period before a late charge is due or commencement of foreclosure proceedings in the event of default.

EMPLOYMENT/INCOME:

- Reminder: Income for each borrower to be obligated for the mortgage debt must be analyzed whether it can reasonably be expected to continue through at least the first 3 years of the mortgage loan.
- A valid social security number and clear CAIVRS are required for all borrowers.
- The borrower's employment/income history must be verified for the most recent 2 years.
- Overtime and bonus income may be used if the borrower has received the income for at least 22 months and it is likely to continue.
- A verbal verification of employment is required for salaried and self-employed borrowers. The VOE must cover 2 years if the borrower has less than 2 years on their current job.
- The salaried borrower's employment/income is verified with their current employer if their income is from a non-military source.
- If the borrower's income is from a military source, a Leave and Earnings Statement (LES) is required instead of a verification of employment. The LES must meet the following requirements:
 - ❖ The LES must furnish the same information as a VOE.
 - ❖ The LES must be no more than 120 days old (180 days for new construction).
 - ❖ For loans closed automatically, the date of the LES must be within 120 days of the date the note is signed (180 days for new construction).
 - ❖ For prior approval loans, the date of the LES must be within 120 days of the date the application is received by VA (180 days for new construction).
 - ❖ The LES must be an original or a copy certified by the lender to be a true copy of the original.
- **If the anticipated closing date of the loan is within 12 months of the Veteran's release from active duty, the following additional requirements must be met:**
 - ❖ **The file must include documentation the service member has re-enlisted or extended his/her period of active duty for >12 month period following the projected close of the loan. OR**
 - ❖ **The file must contain verification of a valid offer for civilian employment following the release from active duty. OR**
 - ❖ **A statement from the service member that he/she intends to reenlist or extend their period of active duty to a date >12 months plus a statement from the borrowers commanding officer confirming the service member is eligible to reenlist and the commanding officer has no reason to believe any reenlistment or extension of active duty will not be granted.**
 - ❖ **Documentation of unusually strong positive underwriting factors such as minimum 10% down payment, significant cash-reserves and evidence of strong ties to the community with a nonmilitary spouses' income so high that only minimum income from the active duty service member is needed to qualify.**
- A self-employed borrower's employment/income is verified by the most recent 2 years federal tax returns (personal and business required) and YTD P & L.
- Commission earnings also require two years tax returns.
- Non-taxable income may be "grossed-up" a maximum of 20%.
- A signed 4506-T will be processed by Stearns regardless of AUS findings (except IRRRLs).

Military Income Base Pay:

- Consider the applicant's base pay as stable and reliable unless the applicant is within 12 months of release from active duty:
- Analyze any additional documentation submitted.
- If the applicant will not be reenlisting, determine whether the applicant's anticipated source of income is stable and reliable and/or unusually strong underwriting factors compensate for any unknowns regarding future sources of income.
- Non-taxable military income (BAH, BAS) may be "grossed-up" 20%.

Military Quarters Allowance:

- The lender may include a military quarters allowance in effective income if properly verified. In most areas there will be an additional variable housing allowance, which can also be included.
- The military quarters and variable housing allowances are **not** taxable income.

EMPLOYMENT/INCOME
(cont'd)

- The lender must ensure that the applicant meets the occupancy requirements set forth in [section 5 of chapter 3](#).

Subsistence and Clothing Allowances

- Any subsistence (rations) and clothing allowances are indicated on the LES.
- The lender may include verified allowances in effective income. These allowances are not taxable income.

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

Other Military Allowances

- To consider a military allowance in the underwriting analysis, obtain verification of the type and amount of the military allowance, and how long the applicant has received it.
- Examples include propay, flight or hazard pay, overseas pay and combat pay.
- All of these sources are subject to periodic review and/or testing of the recipient to determine continued eligibility.
- These types of allowances are considered taxable income by the IRS, unlike housing, clothing, and subsistence allowances.

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

Participation in Reserves/National Guard:

- The underwriter must condition for the Reserves Certification. The Reserves Certification form is located in J://Operational Tools/Underwriting/VA.
- Lenders must ask every applicant, whose income is being used to qualify for a loan, if their income is subject to change due to participation in a Reserves/ National Guard unit due to activation. The lender must obtain a statement which affirms the applicant's status relative to membership in the Reserves or National Guard has been ascertained and considered. If the answer is yes, lenders must determine what the applicant's income may be if activated:
 - ❖ **Reduced:** carefully evaluate the impact the reduction may have on the borrower's ability to repay the loan.
 - ❖ **Increased:** consider the likelihood the income will continue beyond a 12 month period.

Recently Discharged Veterans:

- If the applicant has been employed in a position for only a short time, obtain a statement from the employer that the applicant is performing the duties of the job satisfactorily and the probability of continued employment is favorable.

Prospects for Continued Employment Analysis:

- Cases involving recently discharged veterans often require the underwriter to exercise a great deal of flexibility and judgment in determining whether the employment income will continue in the foreseeable future. This is because some Veterans may have little or no employment experience other than their military occupation. Continuity of employment is essential for a veteran with no retirement income or insufficient retirement income to support the loan obligation.
- For recently discharged veterans who have been in their new jobs only a very short time, analyze prospects for continued employment as follows:
 - ❖ If the duties the applicant performed in the military are similar or directly related to the duties of the present position, use this as one indicator that the employment is likely to continue.
 - ❖ If the applicant's current job requires skills for which the applicant has had no training or experience, greater time in the current job may be needed to establish stability.

Voluntary Separation Payments

Two types of voluntary separation payments are used to facilitate military downsizing:

- Special Separation Benefit (SSB)
 - ❖ A one-time lump sum
 - ❖ Taxable in the year received, and

EMPLOYMENT/INCOME
(cont'd)

- ❖ Treat the same as any substantial cash reserve
- Voluntary Separation Incentive (VSI)
 - ❖ Annual payments
 - ❖ Taxable in the year received
 - ❖ Include in effective income
 - ❖ Calculated by multiplying the veteran's years of service times two
 - ❖ Requires a minimum of six years service (equates to a minimum of 12 years annual payments).
- If the veteran receives both VSI and VA disability compensation payments, the VSI is reduced by the amount of disability compensation. However, if the disability compensation is related to an earlier period of service and the VSI a later period of service, the VSI is **not** reduced by the amount of disability compensation.
- VSI is reduced by the amount of any base pay or compensation a member receives for active or reserve service, including inactive duty training

Rental Income from a Multi-Unit Property Securing the VA Loan

- The lender must verify cash reserves totaling at least six months mortgage payments (principal, interest, taxes, and insurance - PITI) AND document of the applicant's prior experience for managing rental units or other background involving both property maintenance and rental.
- The prospective rental income may only be used for qualifying if evidence indicates the applicant has a reasonable likelihood of success as a landlord AND cash reserves totaling at least six months mortgage payments are documented.
- The amount of rental income to include in effective income is based on 75 percent of:
 - ❖ verified prior rent collected on the units (existing property), or
 - ❖ the appraiser's opinion of the property's fair monthly rental (proposed construction).

Rental Income from a Property the Borrower Occupied Prior to the New Loan:

- 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 rental income may **not** be included in effective income.
- The lender must document the strength of the local rental market.
- Property depreciation claimed as a deduction on the tax returns may be included in effective income.

Rental Income from Other Property Not Securing this Loan

- The lender must obtain the following:
 - ❖ Documentation the borrower has cash reserves totaling at least three months mortgage payments (principal, interest, taxes, and insurance - PITI). AND
 - ❖ Individual income tax returns, signed and dated, plus all applicable schedules for the previous two years which show the rental income generated by the property.
- Rental income verified as stable and reliable may be included in effective income.
- If there is little or no prior rental history on the property make a determination based on documentation of the applicant's prior experience managing rental units or other background involving both property maintenance and rental, any leases on the property, and the strength of the local rental market.
- Property depreciation claimed as a deduction on the tax returns may be included in effective income.

Residual Income:

- VA requires borrowers monthly net earnings be calculated on VA Loan Analysis (VA Form 26-6393).
- Residual income is calculated based on remaining earnings once **all** monthly obligations: debt liabilities, PITI + maintenance expense, (i.e. subject property square footage x \$.14) withholding taxes, FICA and Medicare have been deducted.

EMPLOYMENT/INCOME
(cont'd)

- **Grossed up amount of non-taxable income should not be used to calculate residual income. Use the base income amount.**
- 1003 should always be completed for dependents in order to correctly calculate residual income, even if there are no dependents.
- VA residual income requirement is based on family size and the location of subject property per the chart :

Table of Residual Incomes by Region				
For loan amounts of \$80,000 and above				
Family Size	Northeast	Midwest	South	West
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1,025	\$1,003	\$1,003	\$1,117
5	\$1,062	\$1,039	\$1,039	\$1,158
Over 5	Add \$80.00 for each additional family member up to 7			

Reduce the residual income figure (from the above chart) by a minimum of five percent if:

- the applicant or spouse is an active-duty or retired serviceperson, **and**
- there is a clear indication that he or she will continue to receive the benefits resulting from use of military-based facilities located near the property.

Use five percent unless the VA office of jurisdiction has established a higher percentage, in which case, apply the specified percentage for that jurisdiction

ASSETS:

- Assets must be liquid and or must be readily converted to cash. Assets must be converted to cash without retirement or job termination.
- Liquid assets include checking accounts, savings accounts, CD's, gifts, money market, mutual funds, stock, trust funds, net equity, bridge loans, bonds, secured borrowed funds, etc.
- Funds from personal assets that are sold prior to closing are acceptable as long as the individual purchasing the asset is not a party to either the property sale transaction or the mortgage financing transaction. The ownership of the asset and the value of the asset must be documented. The borrower must provide a bill of sale and proof of receipt of funds.
- Assets such as 401(k), IRS, thrift savings plans etc. may be used for cash reserves up to 60% of value unless the borrower can document a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.
- Funds borrowed against 401(k), IRA, thrift savings plans, etc. may be used for loan closing, **may not** be considered cash reserves.
- Business assets may be used for down payment and closing costs as follows:
 - The borrower must be the sole proprietor or 100% owner of the business or provide verification from the other owners that the borrower has access to the funds.
 - The accountant must comment on what impact the withdrawal of the funds will have on the business. If the accountant states that there will be a negative impact, the use of the funds will not be permitted.
 - Business funds are not an eligible source of funds for cash reserves.

CASH RESERVES:

- Cash reserves are not required on 1 unit properties with loan amounts <\$417,000.
- One unit properties with loan amounts >\$417,000 require 6 months PITI for reserves.
- On 2-4 unit properties, 6 months PITI is required for reserves **when rental income is used to qualify.**
- Funds borrowed against 401(k), IRA, thrift savings plans, etc. **may not** be used for cash reserves.
- Assets such as equity in other properties and the proceeds from a cash-out refinance **may not** be used for cash reserves.
- Gift funds **may not** be used for reserves.
- Business funds are not an eligible source of funds for cash reserves.

**GIFTS/ DOWN
PAYMENT:**

Down Payment:

- The amount of available VA Entitlement must be 25% of the lesser of the sales price or appraised value. If the Veteran does not have sufficient eligibility to cover 25% of the lesser of the sales price or the appraiser value, or if the total loan amount is higher than the county limit for a one unit dwelling, a down payment would be required to meet the 25%.
- The maximum guaranty that VA will provide is 25% of the maximum county limits. The maximum loan amount for a 100% LTV/CLTV purchase transaction with full entitlement, including the VA Funding Fee, is \$650,000.

Gifts:

- Gifts are permitted.
- Gifts must come from a relative, domestic partner or fiancé.
- Cash on hand is not an acceptable source of gift funds.
- A gift letter must be provided and include the name, address and telephone number of the donor, the relationship to the borrower, state the dollar amount of the gift and that no repayment is expected or required.
- If the gift funds are already in the borrowers account the transfer of funds must be documented by obtaining a copy of the canceled check or other withdrawal documents showing the withdrawal from the donors personal account along with the homebuyers deposit slip or bank statement that shows the deposit.
- If the gift funds are not already in the borrowers account, transfer of the gift funds to the borrowers account or to escrow (or the closing agent) must be documented. Acceptable documentation is a copy of the certified check and a bank statement showing withdrawal from the donors account.
- If the gift funds were borrowed and the donor cannot provide documentation the monies were in a bank account, the donor must provide evidence the funds were borrowed from an acceptable source. (i.e. Not a party to the transaction.)

**DOCUMENTATION
TYPES:**

- Loan applications on this program must be fully documented.
- Income, employment and assets are fully documented and verified.

SECTION 6:

PROPERTY/APPRAISALS

ELIGIBLE PROPERTIES:

Eligible Properties are attached & detached SFR, 2-4 units, VA approved condo projects and PUD units.

Condition of Property: For all real estate transfers (purchase transactions). All properties must be habitable and all appliances, plumbing, electrical, etc. must be functional and in good working condition. A stove is not required in the case where a stand-alone appliance can be placed. If the kitchen has built in appliances, a stove/oven must be installed. The lack of a stove or oven can not pose any health or safety hazard, otherwise installation is required prior to closing.

2-4 units: The Veteran must have a documented history of having prior landlord or property management experience. Requires 6 months PITI for reserves. The rental income vacancy rate = 25%.

Condos must be approved by VA. **Condos in Florida not permitted.**

Modular Housing is acceptable. Modular housing is prefabricated, panelized or sectional housing that assumes the characteristics of a site built home, meets all local and state building codes, is permanently affixed to the land and is legally classified as real estate. At least one comparable sale must be of a modular home.

Listed Properties/Refinance Transactions: Properties may not be currently listed at the time of application.

- The property listing agreement must be cancelled a minimum of 1 day prior to the application date.
- A copy of the cancelled/expired listing must be included in the file.
- Appraiser must note that the property is not currently listed.
- The borrower must confirm the intent to occupy the property.
- For cash out refinances where property has been previously listed within the last 6 months, the maximum LTV/CLTV/HCLTV is 70%.

Property Flipping: If the owner (individual or entity other than the Mortgage holder) sells a property within 90 days after the date of acquisition, that property is not eligible for financing. An exception may be granted by corporate support on a case by case basis.

INELIGIBLE PROPERTIES:

Condos in Florida not permitted.

Ineligible properties: condotels, kiddie condos, timeshares, cooperatives, unique properties, unimproved land, commercial properties, **manufactured homes**, properties with deed restrictions, properties on Indian leased land.

Re-negotiated purchase agreement policy:

- Stearns will not accept re-negotiated purchase agreements that increase the sales price after the appraisal has been completed if:
 - The appraised value is higher than the contracted sales price provided to the appraiser, and
 - The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received, and
 - The only change to the purchase agreement is an increase in sales price.
- If the purchase agreement is re-negotiated after the completion of the appraisal, the loan to value will be based on the lower of the original purchase price or the appraised value, unless:
 - A re-negotiation of seller paid closing costs and/or pre-pays occurs if customary for the market and supported by comparables, not to exceed standard seller contributions, or
 - An amended purchase agreement for a new construction property is obtained due to improvements that impact the value. In the event of such changes, an updated appraisal must be obtained to verify the value of the modifications.

STATE RESTRICTIONS:

- Stearns may make VA loans in all states they have lending licenses or exemptions in.
- Loans that meet the state of CT definition for a "non-prime" loan are not eligible for a streamline refinance (IRRRL). See the Predatory Lending section of the Connecticut Lending Information document for information on "non-prime" transactions.
- For IRRRL on Nevada properties, a "Commercially Reasonable Means or Mechanism Worksheet" must be completed and retained in the file. The form is located in the J://Operational Tools/Underwriting/Tangible Net Benefit Worksheets folder.
- **Condos in Florida not permitted.**

CONSTRUCTION/PERM:

Not applicable

APPRAISAL:

- A full appraisal from a VA approved appraiser is required.
- **A conventional appraisal (full interior/exterior) is required on all VA IRRRLs. Appraised value must be supported and be equal to or greater than the total loan amount (base loan amount plus VA funding fee). This appraisal must comply with HVCC.**
- All appraisals with an effective date on or after April 1, 2009 will require Form 1004MC Market Conditions Addendum to the Appraisal Report.
- VA assigns a VA appraiser at time the VA case# is ordered online through VIP (Veteran Information Portal).
- Stearns SAR (Staff Appraisal Reviewer) must review the VA appraisal and issue a NOV (Notice of Value) that includes any required repairs, inspections, etc. The NOV must be completed within 5 days of appraisal being available for download on VIP website.
- For properties appraised as proposed construction or less than 1 year old and never occupied, the builder must be VA approved.
- The property must have been appraised/inspected within **6 months** of the date of the note. If the appraisal is >6 months old as of the date of the note for new and existing construction, an update of value must be obtained.
- To update an appraisal, the appraiser must inspect the exterior of the property and review current market data to determine whether there has been a change in value since the original appraisal.
- If the appraiser determines that the property value has declined (through an update), a new appraisal must be obtained.
- **Condition of Property: For all real estate transfers (purchase transactions).** All properties must be habitable and all appliances, plumbing, electrical, etc. must be functional and in good working condition. A stove is not required in the case where a stand-alone appliance can be placed. If the kitchen has built in appliances, a stove/oven must be installed. The lack of a stove or oven can not pose any health or safety hazard, otherwise installation is required prior to closing.
- The cost approach is no longer required on all appraisals



APPRAISAL: (cont'd)	<p>Note: For all transactions ~ the underwriter must pull additional comps if there is more than one comparable sale on the appraisal older than 90 days from the date of the appraisal OR located >1 mile from the subject property for urban & suburban properties and > 5 miles away for rural properties. The additional comps must support the appraised value. If the comps do not support the appraised value, the underwriter must contact the appraiser for further clarification. If the clarification is not satisfactory, an enhanced desk review must be obtained and must support the appraised value. If the enhanced desk review does not support the appraised value, the value must be reduced. If the loan approval has expired, comparables should be verified to ensure that they are within 90 days of the new approval date, otherwise the underwriter needs to obtain new comparables to verify that the value is still supported. Note: If there are NO additional comps available: If comps are > 90 days to 6 months old, no additional reviews will be required. If the comps are > 6 months old, the appraisal must include time adjustments.</p>
CONDO PROJECTS:	<ul style="list-style-type: none"> • VA approval is required on all projects. • FHA or FNMA approved projects must also be VA approved. • The VA approved project list may be accessed through the Veterans Information Portal website https://vip.vba.va.gov/portal/VBAH/Home , select " TAS", then select "All users", then select " Condo/ PUD builder. • Site condos are eligible as long as the project consists of detached SFRS and have no common improvements other than greenbelts, private streets and parking areas.
SECTION 7:	INSURANCE
MORTGAGE INSURANCE:	Not applicable
SELF-INSURED OPTION:	Not applicable
HAZARD INSURANCE:	<ul style="list-style-type: none"> • Hazard insurance is required for each property. • The amount of hazard insurance coverage must be the lesser of 100% of the insurable value of the improvements as established by the property insurer OR the unpaid principal balance as long as it equals at least 80% of the insurable value of the improvements. • For properties located in California, lenders may not require hazard insurance in an amount exceeding the replacement value of the improvements on the property. • The maximum deductible may be up to 5% of the amount of the policy.
FLOOD INSURANCE:	<ul style="list-style-type: none"> • A flood hazard determination is required for all loans. • Flood insurance is required if the property is located in a special flood hazard area or flood zone. • Flood insurance is required on properties located within the following special flood hazard area zones: A, AE, AH, AO, A1-30, A-99, V, VE, V1-30 • The maximum amount of flood insurance required is the lowest of: 100% of the replacement cost of the dwelling, calculated as appraised value minus land value OR the unpaid principal balance of the mortgage OR the maximum insurance available under the National Flood insurance program. (Currently \$250,000 per dwelling.) • The deductible for 1-4 unit properties may not exceed a maximum of \$5,000 unless a higher deductible is required by state law.
RENT LOSS INSURANCE:	Not applicable
IMPOUNDS:	Required for all properties regardless of LTV.



SECTION 8:	TITLE/CLOSING AGENTS
TITLE DOCUMENTATION:	<p>Title History Review Policy: The preliminary title report must reflect a minimum 6-month title history.</p> <p>Title Insurance: A full ALTA title policy is required.</p>
PLAT/SURVEYS:	<ul style="list-style-type: none"> • Surveys are required in some areas. See Stearns state lending information for survey requirements. • If surveys are not commonly required in the area where the property is located an ALTA 9 endorsement or its equivalent should be provided. • If it is not customary to supply either a survey or an endorsement, the title policy must not have a survey exception.
INTER VIVOS REVOCABLE TRUSTS:	Not eligible
POWER OF ATTORNEY:	<p>The specific power of attorney or other document(s) signed by the veteran, must encompass the following elements:</p> <ul style="list-style-type: none"> - Entitlement—A clear intention to use all or a specified amount of entitlement. - Purpose—A clear intention to obtain a loan for purchase, construction, repair, alteration, improvement, or refinancing. - Property Identification—Identification of the specific property. - Price and Terms—The sales price, if applicable, and other relevant terms of the transaction. - Occupancy—The veteran's intention to use the property as a home to be occupied by the veteran (or other applicable VA occupancy requirement) <p>The lender must always verify that the veteran is alive at the time of loan closing, whether or not the veteran is still in the military.</p> <p>If the lender has difficulty obtaining verification that a service person in a combat area is alive and not in MIA status, the lender may request that VA obtain the necessary information on its behalf. VA may deny guaranty on a loan if the lender failed to properly verify the veteran's status and the veteran was deceased (or MIA) at the time the loan was closed.</p>
SECTION 9:	FEES/MISCELLANEOUS
FEE LIMITATIONS:	<ul style="list-style-type: none"> • Veterans can not pay VA non-allowable fees in any transaction (purchase or refinance). • The Veteran can ONLY pay a 1% origination fee, reasonable discount Points (up to 2%), appraisal fee, title fee, recording fee. Note: The broker can not charge discount points. Per RESPA reform, discount points may only be the charge for a specific interest rate, so would be paid to the lender. • The veteran can not be charged a fee for the appraisal requirement on IRRRLs. • Loans where the "points and fees" or "annual percentage rate" exceed the maximum thresholds described under HOEPA (Section 32) are not eligible for purchase. This applies to all types of mortgages (Purchases and refinances) except HELOC. • Reminder: Section 32 (HOEPA) thresholds are: APR that exceeds the yield on the Treasury securities for the same term of the loan by >10% OR the total points and fees paid by the borrower exceeds the greater of 8% or the maximum dollar amount set annually by the Federal Reserve. • For a purchase transaction the maximum real estate commission cannot exceed 8% of the sales price. • Broker compensation is limited to 4% of the loan amount.

SELLER/INTERESTED PARTY CONTRIBUTIONS:

VA allows seller and third parties to pay ALL veteran's closing costs and prepaids without a % limitation as long as the costs are reasonable + customary. Seller concessions are allowed up to 4%.

Seller concessions may include, but are not limited to, the following:

- payment of the buyer's VA funding fee
- prepayment of the buyer's property taxes and insurance
- gifts such as a television set or microwave oven
- payment of extra points to provide permanent interest rate buydowns
- provision of escrowed funds to provide temporary interest rate buydowns, and
- pay off of credit balances or judgments on behalf of the buyer.

Seller concessions cannot include:

- payment of the buyer's closing costs, or
- payment of points as appropriate to the market.

HOA subsidies are not permitted. HOA fees due at closing may be paid with interested party contributions, however payments due after closing can not be paid in advance through interested party contributions.

Please see the LTV/CLTV/value and Ineligible Properties sections above for instances where a re-negotiated purchase agreement is issued after the appraisal is completed.

MISCELLANEOUS:

- Premium pricing may be used to pay closing costs and prepaids, including the accrued interest on a refinance transaction. Premium pricing may also be used to pay lender-funded buydowns on a fixed rate purchase transaction.