

# VA MANUAL UNDERWRITING



PROGRAM SPECIFICATIONS	
DESCRIPTION	Southwest Funding allows for manual underwriting on VA transactions for the following scenarios <ul style="list-style-type: none"> <li>Loans that receive DU and or LP refer recommendations.</li> <li>Loans that require a manual downgrade due to circumstances within the file.</li> </ul>
FICO	Min. 580 for all qualifying borrowers
DTI	Max 50% w/ 120% required residual income & comp factors. Required comp factors are at the UW's discretion based on layered risk. Loans with a DTI that exceed 41% require a second level signature.
ELIGIBLE TERMS	10 year 15 year 20 year 25 year 30 year fixed
ELIGIBLE TRANSACTION TYPES	Purchase and Cash Out Type I & Type II Refinance Transactions
VA FUNDING FEE	The Funding fee may be financed in the loan. Maximum LTV based on base loan amount.
ELIGIBLE PROPERTY TYPES	<ul style="list-style-type: none"> <li>1-2 Unit primary Residence</li> <li>VA approved condominiums</li> <li>PUDs</li> <li>Manufactured homes (this is a brokered loan product)</li> </ul>
APPRAISAL	Current Value is determined by appraisal.
MAXIMUM LTV	100% LTV plus VA funding fee
MAXIMUM DTI	50% with at least 3 documented compensating factors from Southwest Funding's approved compensating factors list.
RESIDUAL INCOME REQUIREMENTS	All VA loans must meet VA residual income requirements. DTI exceeding 41% requires residual income to exceed the guideline by at least 20%.
ADVERSE CREDIT DATA	With no prior BK, satisfactory credit is generally considered to be re-established after the borrower(s), have made satisfactory payments for 12 months after the date the last derogatory credit item was <u>satisfied</u> . Numerous unpaid collections and/or accounts that are not being paid timely, including some which have been outstanding for many years, then once the borrower has satisfied the obligations, and then makes timely payments on subsequent obligations for at least 12 months, satisfactory credit is considered re-established. Ultimately, it is the underwriter's discretion to review the borrower's entire credit history along with other layered risk on the loan.
SATISFIED (VA DEFINITION)	The credit item was paid off in full or the borrower has been on a payment plan and has made at least 12 months of satisfactory payments.
COLLECTION ACCOUNTS	No collections opened in the last 24 months. No collections opened in the last 24 months, unless deemed isolated and/or circumstance beyond the borrower's control that can be documented. Isolated collection accounts do not necessarily have to be paid off as a condition for loan approval. Unpaid collection accounts should be considered open, recent credit.

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	Borrowers with a history of collection accounts should have re-established satisfactory credit. If the collection account is listed on the credit report with a minimum payment, then the debt should be recognized at the minimum payment amount.
CHARGED OFF ACCOUNTS	These accounts are typically collections in which the creditor is no longer pursuing collection of the account. The underwriter must address the circumstances regarding the negative credit history when reviewing the overall credit of the borrower(s).
JUDGMENTS	Must either be paid in full or subject to a repayment plan with a history of timely payments.
PAYOFF OF UNPAID OR UNTIMELY DEBTS	Pay-off of these debts after the acceptability of a borrower's credit is questioned does not alter the unsatisfactory record of payment. A period of making timely payments on subsequent obligations for at least 12 months, then satisfactory credit is considered re-established.
CONSUMER CREDIT COUNSELING PLANS	Prior adverse credit - 12 months' satisfactory payments and the counseling agency approves the new credit. Prior good credit – Borrower is eligible.
BANKRUPTCY	Chapter 7 – Discharged more than 2 years ago Chapter 13 – Discharged is eligible with satisfactory Ch 13 payment history. Chapter 13 – Not Discharged, but has made at least 12 months of satisfactory payments under the plan is eligible with Trustee or Judge approval. **See Ch 4 of Lender's Handbook for Ch 7 discharged between 12-24 mos for circumstances beyond the borrower's control, plus borrower has re-established credit.
FORECLOSURE	Must have been finalized (sale date) more than 2 years from the date of closing. Borrower needs re-established credit.
DEED-IN-LIEU SHORT SALE	Develop complete information on the facts and circumstances in which the borrower(s) voluntarily surrendered the property. If the borrower's payment history on the property was not affected before the short sale or deed in lieu and was voluntarily communicating with the servicer or holder, then a waiting period from the date transfer of the property may not be necessary. Otherwise it will be a 2 year waiting period.
ALTERNATIVE/NON-TRADITIONAL CREDIT/ ABSENCE OF CREDIT HISTORY	If alternative credit is required, 24 mo VOR, plus 2 ALT trade lines with at least a 12-month history is required. Alt credit requirement is determined by the underwriter based on borrower's credit history. <ul style="list-style-type: none"> <li>• ALT credit must be added to credit supplement</li> <li>• ALT credit must show 0 x 30 x 12</li> <li>• *No Score Borrowers are currently a brokered loan product</li> </ul>
MORTGAGE / RENT HISTORY	0 x 30 x 24 months required. <ul style="list-style-type: none"> <li>• VOR must be listed on a credit supplement or</li> <li>• 24 months cancelled rent checks is required</li> </ul>

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EMPLOYMENT VERIFICATION	<p>The following Income and Employment documentation is required</p> <ul style="list-style-type: none"> <li>• Salaried (W2) borrower(s) require a written VOE and most recent 30 days' paystubs</li> <li>• Self – employed borrower(s) require 2 years' tax returns</li> <li>• Awards letter required for all retirement and or social security income</li> <li>• COE or Award letter for VA Disability Benefits</li> </ul>
ASSETS	<p>2 Months bank statements are required for each asset account.</p> <ul style="list-style-type: none"> <li>• Bank statements cannot show any NSF/Overdrafts</li> </ul>

## ACCEPTABLE COMPENSATING FACTORS

- EXCELLENT CREDIT HISTORY. THIS IS DEFINED AS CREDIT WITH NO LATE PAYMENTS IN LAST 12 MONTHS, NO COLLECTIONS OPENED IN PAST 24 MONTHS, BANKRUPTCY DISCHARGE GREATER THAN 2 YEARS WITH RE-ESTABLISHED CREDIT, FORECLOSURE/DEED IN LIEU GREATER THAN 2 YEARS, OUTSTANDING JUDGEMENTS AND TAX LIENS MUST BE IN A PAYMENT PLAN WITH 12 MONTHS OF SATISFACTORY PAYMENTS MADE.
- MINIMAL USE OF CONSUMER CREDIT
- LONG TERM EMPLOYMENT OF GREATER THAN 2 YEARS WITH SAME EMPLOYER
- SIGNIFICANT ASSET RESERVES OF AT LEAST 3 MONTHS PITI
- MINIMAL INCREASE IN MONTHLY HOUSING DEBT. MINIMAL IS DEFINED AS LESS THAN \$100 OR 5% HIGHER THAN CURRENT MONTHLY HOUSING PAYMENT, WHICHEVER IS LESS
- INCOME NOT BEING CONSIDERED IN QUALIFICATION. THIS IS DEFINED AS OVERTIME, BONUS, NON-PURCHASING SPOUSE INCOME (MUST BE FULLY DOCUMENTED) ETC.
- SIZEABLE DOWN PAYMENT. SIZEABLE IS DEFINED AS 5% OR MORE
- FIXED INCOME. FIXED INCOME IS DEFINED AS INCOME THAT WILL BE RECEIVED FOR LIFE SUCH AS VA DISABILITY, RETIREMENT, SOCIAL SECURITY (FOR BORROWER) ETC.
- EQUITY ON REFINANCE LOANS

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<b>Table of Residual income by Region For loan amounts of \$79,999 and below</b>				
<b>Family size</b>	<b>Northeast</b>	<b>Midwest</b>	<b>South</b>	<b>West</b>
1	\$390	\$382	\$382	\$425
2	\$654	\$641	\$641	\$713
3	\$788	\$772	\$772	\$859
4	\$888	\$868	\$868	\$967
5	\$921	\$902	\$902	\$1004
<b>Over 5 Add \$75 for each additional member up to a family of 7</b>				

<b>Table of Residual income by Region For loan amounts of \$80,000 and above</b>				
<b>Family size</b>	<b>Northeast</b>	<b>Midwest</b>	<b>South</b>	<b>West</b>
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1025	\$10036	\$1003	\$1117
5	\$1062	\$1039	\$1039	\$1158
<b>Over 5 Add \$80 for each additional member up to a family of 7</b>				

<b>Key to Geographic Regions Used in the Preceding Tables</b>			
Northeast	Connecticut	New Hampshire	Pennsylvania
	Maine	New Jersey	Rhode Island
	Massachusetts	New York	Vermont
Midwest	Illinois	Michigan	North Dakota
	Indiana	Minnesota	Ohio
	Iowa	Missouri	South Dakota
	Kansas	Nebraska	Wisconsin
South	Alabama	Kentucky	Puerto Rico
	Arkansas	Louisiana	South Carolina
	Delaware	Maryland	Tennessee
	District of Columbia	Mississippi	Texas
	Florida	North Carolina	Virginia
	Georgia	Oklahoma	West Virginia
West	Alaska	Hawaii	New Mexico
	Arizona	Idaho	Oregon
	California	Montana	Utah
	Colorado	Nevada	Washington
			Wyoming

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## VA Funding fee

The below table summarizes funding fee rates for the most common types of loans for all Veterans (Regular Military, Reserves, and National Guard) for loans closed on or after January 1, 2020, and before January 1, 2022.

Loan Type	Required down payment	First Time Use	Subsequent Use
Purchase	0% down	2.30%	3.60%
	5% or more down	1.65%	1.65%
	10% or more down	1.40 %	1.40%
Regular Cash-out refinance	N/A	2.30%	3.60%
IRRRL	N/A	0.50%	0.50%