

**Updated Lender Guidance for
Borrowers Affected Financially by the
COVID-19 National Emergency**

1. Purpose. VA is publishing this Circular to announce temporary measures for the review of borrower qualifications for a VA-guaranteed home loan when the borrower's income and the lender's processing of the home loan have been affected by the ongoing COVID-19 national emergency.

2. Background. VA cannot guarantee a loan unless the borrower obtaining the loan is a satisfactory credit risk, as determined in accordance with the credit underwriting standards established by VA.¹ One such standard requires the lender to verify that the borrower's present and anticipated income is stable and reliable and bears a proper relation to the anticipated terms of loan repayment.² Additionally, the lender must ensure that the VA-guaranteed home loan is secured by a first lien on the property being used as collateral.³

3. Effective Date. This Circular is effective immediately.

4. Income Verification Guidelines. Lenders should continue to use good judgment and flexibility when verifying a borrower's income and determining whether that income is stable and reliable. Lenders should make every effort to satisfy VA's longstanding requirements concerning verification of employment as outlined in VA Pamphlet 26-7, Chapter 4 Credit Underwriting. The lender may rely on third-party services to provide employment and income verification, but VA reminds lenders that additional fees associated with these services cannot be charged to the borrower.⁴

5. Income Analysis. For income analysis purposes, VA generally requires the borrower's income to be stable and reliable for two years.⁵ However, if the COVID-19 pandemic affected the stability or reliability of the income (for example, due to furlough, curtailment of income, etc.), the lender should not consider the adverse effects as a break in employment or income, as long as the borrower has returned, or is anticipated to return, to work in the same capacity and income level. As part of the income verification documentation, the borrower should provide a furlough letter if applicable. VA continues to encourage lenders to document their analyses and justifications for all borrowers, especially "borderline" cases and to upload the supporting documentation to WebLGY.

¹ 38 U.S.C. § 3710(b)(3).

² 38 C.F.R. § 36.4340 and further detailed in VA Pamphlet 26-7, Chapter 4 Credit Underwriting.

³ 38 U.S.C § 3703(d)(3) and 38 C.F.R. §§ 36.4328(b), 36.4355.

⁴ 38 C.F.R. § 36.4313 and VA Pamphlet 26-7, Chapter 8, Section 2 Fees and Charges the Veteran-Borrower Can Pay.

⁵ 38 C.F.R. § 36.4340 and VA Pamphlet 26-7, Chapter 4 Credit Underwriting.

6. Electronic Mortgages (eMortgages), Electronic Notes (eNotes), and the use of Allonges: Due to the effects of the COVID-19 pandemic, VA anticipates an increase in the use of eMortgages. VA encourages the use of eMortgages and is actively working with other federal housing agencies and the Government National Mortgage Association (GNMA) to increase access to eMortgages. When preparing an eMortgage, the lender is responsible for ensuring that the VA-guaranteed loan is properly secured and that the VA-guaranteed loan is in first position. VA does not provide templates for eMortgages, nor can VA advise whether an eMortgage will meet the requirements of other stakeholders, such as potential investors, GNMA, the Consumer Financial Protection Bureau, State regulators, or county recorders.

VA has not issued VA-specific requirements regarding electronic notarization of loan closing documents. If an electronic notarization, including in-person electronic notarization (IPEN) or remote online notarization (RON), is otherwise valid and effective, VA will not consider an electronic notarization as a deficiency of VA's loan processing standards.

7. Lien Position. VA acknowledges that, due to the COVID-19 national emergency, closures or backlogs of local recording offices may result in delayed recording of loan documents. These delays could interfere with the lender's ability to perfect their lien priority timely. VA will not penalize lenders that, due solely to recording office delays, experience difficulties in timely perfecting the first lien position of a VA-guaranteed loan. However, VA reminds that the lender remains responsible for ensuring that the VA-guaranteed loan is secured by a first lien on the property being used as collateral.⁶

8. Timeline to Request Evidence of Guaranty (Loan Guaranty Certificate). VA reminds lenders that, if a loan fee (commonly referred to as a VA funding fee) is payable under 38 U.S.C. § 3729, the loan cannot be guaranteed until the fee has been remitted to VA.⁷ If the effects of the COVID-19 national emergency impair a lender's ability to timely remit the funding fee to VA, the lender should, as soon as possible, contact a Regional Loan Center at the number below.

9. Questions. Contact a VA Regional Loan Center (RLC) by calling 1-877-827-3702, with hours of operation between 8am to 6pm EST.

10. Paperwork Reduction Act. The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. § 3501-3520) and assigned OMB control number 2900-0521. In accordance with the Paperwork Reduction Act, VA may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

11. Rescission: This Circular is rescinded April 1, 2022.

⁶ 38 U.S.C. § 3703(d)(3).

⁷ 38 U.S.C. § 3729(a)(1).

June 29, 2021

Circular 26-20-10
Change 2

By Direction of the Under Secretary for
Benefits

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Distribution: CO: RPC 2021
SS (26A1) FLD: VB AFS, 1 each (Reproduce and distribute based on RPC 2021)