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July 23, 2007

BULLETIN NO. 2007- 05

TO: ALL LENDERS

SUBJ: UNDERWRITING LOANS INVOLVING A NON-PURCHASING SPOUSE IN COMMUNITY PROPERTY STATES

1. Purpose

For loans in community property States, VA credit standards require consideration of the spouse's credit information regardless of whether the spouse will be obligated on the loan or whether the applicant and spouse choose to have the spouse's income considered. This is discussed in the VA Lenders Handbook (Chapter 4, Topics 5a and 7c).

2. General Requirements

- a. The lender must obtain a credit report (MCR or RMCR) on the non-purchasing spouse in addition to that obtained for the veteran-borrower.
- b. The lender must consider the spouse's credit history in reaching a loan decision.

A veteran with a satisfactory credit history may be considered a satisfactory risk despite the fact that the non-purchasing spouse's credit history may be unsatisfactory. When a veteran's credit history is marginal AND the spouse's individual history is unsatisfactory, lenders must carefully consider other aspects of the veteran's financial status before approving the loan. These aspects include, but are not limited to, ability to accumulate savings, residual income, ratio, job tenure, and the proposed amount of increase/decrease in the family's shelter expense. Consideration of the totality of the loan, including the spouse's credit history, should help resolve doubt when the veteran's history is marginal/questionable. A veteran with an unsatisfactory credit history should not be approved for a loan regardless of the spouse's credit history.

3. Underwriting Guidance

Lenders must include the monthly payment of the non-purchasing spouse's debts in the loan analysis. For debts such as judgments and unpaid collection accounts, lenders should consider the veteran's capacity to address the debt(s). Considerations of capacity may include significant liquid assets and/or residual income significantly above the guideline for the family size. The non-purchasing spouse may **voluntarily** provide income information. Lenders may exclude the monthly payment on the spouse's debts from the loan analysis when a reliable source of income for the spouse is verified to reach such a conclusion.

The non-purchasing spouse must be considered in the family size when determining the residual income guideline. Lenders may exclude the spouse from residual income consideration when a reliable source of income for the spouse is verified to reach such a conclusion.

Lenders should develop the facts surrounding any unsatisfied judgments on the spouse's credit report, such as where the judgment was filed and whether the parties were married to one another at the time, and **secure a competent legal opinion whether the judgment may become a lien against the property**. It is not necessary to screen a non-purchasing spouse through the CAIVRS system.

This guidance is provided to help lenders give appropriate consideration to providing veterans their loan guaranty benefits. The application of common sense underwriting considerations should allow the continued availability of the VA home loan benefit to credit-worthy veterans in most non-purchasing spouse situations.

4. Rescission

This Bulletin rescinds RLC Bulletin No. 98-9 dated May 18, 1998, on the same subject.

R. BIAGIOLI
Loan Guaranty Officer