

opposed to a mandatory energy audit. At this time, it is uncertain whether reliable energy audits can be obtained by home purchasers in all parts of the country for an affordable cost. Furthermore, the requirement could be perceived by program participants as unnecessarily complicating the lending process and increasing the cost of homeownership. However, the Certificate of Reasonable Value (VA Form 26-1843) or the lender's Notice of Value is issued for each property to be purchased with a VA guaranteed loan. These notices do recommend that the veteran purchaser obtain such an audit.

A technical change is being made to 38 CFR 36.4212(f)(2) and 36.4311(d)(2) by adding a new sentence to each. The proposed regulations failed to specify what would be the effective date of the new interest rate on an adjustable rate mortgage. The additional sentence provides that when the rate is adjusted, the new rate will become effective the first day of the month following the adjustment date; the corresponding change in the monthly payment of principal and interest will occur one month later, because interest is collected in arrears. These changes reflect standard practice in the industry.

This final rule also contains new provisions to incorporate changes made by Public Laws 103-325, 103-353 and 103-446.

First, 38 CFR 36.4203(a) and 36.4302 are amended to reflect the change by Public Law 103-446 to 38 U.S.C. 3702 to permit a veteran's home or manufactured home loan entitlement to be restored, on a one-time basis, if the veteran has repaid the prior VA loan in full, but has not disposed of the property securing that loan. After one such restoration, any future restoration of that entitlement will require the veteran to have disposed of all property previously financed with a VA loan using that entitlement.

The manufactured home warranty requirements of § 36.4231(b) are amended to reflect the provisions of Public Law 103-446 abolishing the requirement for VA inspections of the manufacturing process and onsite inspections of manufactured homes sold to veterans. Also, as required by Public Law 103-446, the provisions of § 36.4231(b) are amended to provide that any manufactured home properly displaying a certificate of conformity with all applicable Federal manufactured home construction and safety standards is eligible for VA financing.

Public Law 103-353 increased the maximum guaranty amount on loans greater than \$144,000 from \$46,000 to

\$50,750. This final rule accordingly amends 38 CFR 36.4302(a) and (d) to incorporate the increased guaranty amount for VA loans over \$144,000.

38 CFR 36.4306a(a) is amended to incorporate the changes made by Public Law 103-446 with regard to energy efficient improvement costs to be included in interest rate reduction refinancing loans (IRRRLs). Under the provisions of the new law, IRRRLs may now include additional funds for energy efficient improvements.

This final rule also adds new provisions at the end of §§ 36.4212(a) and 36.4311(a). Public Law 103-446 amended 38 U.S.C. 3710(e) to provide that, for an adjustable rate mortgage being refinanced under 38 U.S.C. 3710(a)(8), (a)(9)(B)(i), or (a)(11) by a fixed rate mortgage, the interest rate on the new loan may be higher than the current rate on the adjustable rate loan. The new language merely reflects the statutory change.

This document amends 38 CFR 36.4320(a)(1)(ii)(B) to conform with new statutory language regarding the conveyance of property. Public Law 103-446 amended 38 U.S.C. 3732(c)(7) to provide that VA may now accept conveyance of property securing a guaranteed loan from the loan holder notwithstanding the holder's overbid at the liquidation sale. This was previously allowed only where State law requirements resulted in an overbid. This change extends to all overbids, including those caused by lender or attorney error.

Finally, the National Flood Insurance Reform Act of 1994, title V of Public Law 103-325, permits lenders to charge borrowers a reasonable fee for certain costs of determining whether the home or manufactured home is located in an area having special flood hazards. 38 CFR 36.4232, 36.4254, and 36.4312 are amended accordingly.

The Secretary hereby certifies that this final rule will not have a significant economic impact on a substantial number of small entities as they are defined in the Regulatory Flexibility Act, 5 U.S.C. 601-612. The final rule essentially restates statutory provisions and reflects statutory requirements. Therefore, pursuant to 5 U.S.C. 605(b), this final rule is exempt from the initial and final regulatory flexibility analysis requirements of §§ 603 and 604.

The Catalog of Federal Domestic Assistance Program numbers are 64.114 and 64.119.

List of Subjects in 38 CFR Part 36

Condominiums, Handicapped, Housing Loan programs—housing and

community development, Manufactured homes, Veterans.

Approved: July 17, 1995.

Jesse Brown,

Secretary of Veterans Affairs.

For the reasons set out in the preamble, 38 CFR Part 36 is amended as set forth below.

PART 36—LOAN GUARANTY

1. The authority citation for part 36, §§ 36.4201 through 36.4287 is revised to read as follows:

Authority: Sections 36.4201 through 36.4287 issued under 38 U.S.C. 501, 3701-3704, 3707, 3710-3714, 3719, 3720, 3729, unless otherwise noted.

2. Section 36.4203 is amended by revising the remainder of paragraphs (a)(2) and (a)(3) and adding new paragraph (a)(4) to read as follows:

§ 36.4203 Eligibility of the veteran for the manufactured home loan benefit under 38 U.S.C. 3712.

(a) * * *

(2)(i) The loan has been repaid in full or the Secretary has been released from liability as to the loan, or if the Secretary has suffered a loss on said loan, such loss has been paid in full; or

(ii) A veteran-transferee has agreed to assume the outstanding balance on the loan and consented to the use of his or her entitlement to the extent the entitlement of the veteran-transferor had been used originally, and the veteran-transferee otherwise meets the requirements of 38 U.S.C. chapter 37.

(3) In a case in which the veteran still owns a property purchased with a VA-guaranteed loan, the Secretary may, one time only, restore entitlement if:

(i) The loan has been repaid in full, or, if the Secretary has suffered a loss on the loan, the loss has been paid in full; or

(ii) The Secretary has been released from liability as to the loan and, if the Secretary has suffered a loss on the loan, the loss has been paid in full.

(4) The Secretary may, in any case involving circumstances deemed appropriate, waive either or both of the requirements set forth in paragraphs (a)(1) and (a)(2)(i) of this section.

(Authority: 38 U.S.C. 3702, 3712)

3. Section 36.4212 is revised to read as follows:

§ 36.4212 Interest rates and late charges.

(a) In guaranteeing or insuring loans under 38 U.S.C. chapter 37, the Secretary may elect to require that such loans either bear interest at a rate that is agreed upon by the veteran and the lender, or bear interest at a rate not in