

VA LOANS

1. GENERAL RULES FOR ELIGIBILITY

A. Wartime Service:

| Conflict | Start Date | End Date |
|-----------------|--------------------|------------------|
| World War II | September 16, 1940 | July 25, 1947 |
| The Korean War | June 27, 1950 | January 31, 1955 |
| Vietnam | August 5, 1964 | May 7, 1975 |

You must have at least 91 days on active duty during one of the periods listed above, and been discharged under honorable conditions. If you served less than 91 days, you may be eligible if you were discharged for a service-connected disability. Applications involving other than honorable discharges will usually require further processing by the VA to determine eligibility.

B. Peacetime Service:

| Valid Dates |
|---|
| July 26, 1947 to June 26, 1950 |
| February 1, 1955 to August 4, 1964 |
| May 8, 1975 to September 7, 1980 (Enlisted) |
| May 8, 1975 to October 16, 1981 (Officer) |

You must have at least 181 days of continuous active duty during one of the periods listed above, and been discharged under honorable conditions. If you served less than 181 days, you may be eligible if discharged for a service-connected disability. Applications involving other than honorable discharges will usually require further processing by the VA to determine eligibility.

C. Service after September 7, 1980 (Enlisted) or October 16, 1981 (Officer)

If you were separated from service, which began after these dates, you must have:

- ✚ Completed 24 months of continuous active duty or the full period (at least 180 days) for which you were ordered or called to active duty and been discharged under conditions other than dishonorable: or
- ✚ Completed at least 181 days of active duty and been discharged under the specific authority of 10 USC 1173 (Hardship), or 10 USC 1171 (Early Out); or have been determined to have a compensable service-connected disability; or
- ✚ Been discharged with less than 181 days of service for a service-connected disability. Individuals may also be eligible if they were release from active duty due to an involuntary reduction in force, certain medical conditions, or, in some instance, for the convenience of the Government.

D. Gulf War Service – From August 2, 1990 to Date yet to be Determined

If you served on active duty during the Gulf War, you must have:

- ✚ Completed 24 months of continuous active duty or the full period (at least 90 days) for which you were called or ordered to active duty, and been discharged under conditions other than dishonorable; or
- ✚ Completed at least 90 days of active duty and been discharged under the specific authority of 10 USC 1173 (Hardship), or 10 USC 1173 (Early Out); or have been determined to have a compensable service-connected disability; or
- ✚ Been discharged with less than 90 days service for a service-connected disability. Individuals may also be eligible I f they were released from active duty due to an involuntary reduction in force, certain medical conditions, or, in some instance, for the convenience of the Government.

E. Active Duty Service Personnel

If you are now on regular active duty (not active duty for training), you are eligible after having served 181 days (90 during the Gulf War). Be sure to submit a **Statement of Service** from your commanding officer in lieu of a **DD form 214**. If your separation occurs within 12 months of the anticipated closing dates of your real estate transaction, documentation verifying your intention to re-enlist or extend your active duty beyond 12 months is required. You must also have a statement from your commanding officer confirming this.

F. Selected Reserves or National Guard

If you are not otherwise eligible but have completed a total of six years in the Selected Reserves or National Guard (member of an active unit, attended required weekend drills and two –week active duty for training) and

- ✚ Had an honorable discharge; or
- ✚ Were placed on the retired list; or
- ✚ Were transferred to the Standby Reserve or an element of the Ready Reserve other than the Selected Reserve after service characterized as honorable service; or
- ✚ Continue to serve in the Selected reserves.

Individuals who completed less than six years may be eligible if discharged for a service-connected disability. Eligibility for Selected Reservists expires on September 30, 2007.

If you were discharged from the Army or Air Force National Guard, you may submit

NGB Form 22: Report of Separation and Record of Service or
NGB Form 23: Retirement Points Accounting or its equivalent.

If you were discharged from the Selected Reserve, you may submit a copy of your latest annual points statement and evidence of honorable service. Unfortunately, there is no single form used by the Reserves or National Guard similar to the DD form 214. It is your responsibility to furnish adequate documentation of at least six years of honorable service.

If you are still serving in the Selected Reserves or the National Guard, you must include an original statement of service signed by, or by the direction of, the adjutant, personnel officer, or commander of your unit or higher headquarters showing the length of time that you have been a member of the Selected Reserves. Again, at least six years of honorable service must be documented.

G. You may also be eligible for a VA loan if you:

1. Were discharged for a service-connected disability
2. Were discharged for the convenience of the government after completing at least 20 months of a two-year enlistment, or
3. Completed not less than 90 days (any part during wartime) or 181 continuous days (peacetime), and
 - ✚ Were Discharged because of a hardship
 - ✚ Were determined to have a service-connected compensable disability
 - ✚ Were discharged or released from active duty for a medical condition which preexisted service and has not been determined to be service-connected
 - ✚ Received an involuntary discharge or release from active duty for the convenience of the government as a result of reduction in force
 - ✚ Were discharged ore released from active duty for a physical or mental condition not characterized as a disability and not the result of misconduct but which did interfere with your performance of duty.
4. You are an un-remarried spouse of a veteran who died while in service or from a service connected disability.
5. You are a spouse of a serviceperson missing in action or a prisoner of war.

If you are an un-remarried spouse of a late veteran, you can submit VA Form 26-1817 (Request for Determination of Loan Guaranty Eligibility for Un-remarried Surviving Spouse) to qualify for eligibility.

Eligibility may also be established for certain United States citizens who served in the armed forces of a government allied with the United States in WWII, or individuals who served as members of certain organizations, such as Public Health Service officers; cadets/midshipmen at service academies; National Oceanic and Atmospheric Administration officer; merchant seamen with WWII service; and others.

2. OBTAINING THE CERTIFICATE OF ELIGIBILITY

The Certificate of Eligibility is a **NECESSITY** if you want to apply for a VA loan. To receive this certificate from the VA, you must complete VA Form 26-1880 (request for a certificate of eligibility for home loan benefits) and submit it to a VA Eligibility Center. If you have been discharged from regular active duty, it may be possible to obtain a determination without providing evidence of your military service. However, it is best to provide such evidence with your form to prevent possible delays in processing your request.

If you are still serving on regular active duty, you must include an original Statement of Service signed by) or by direction of) the adjutant, personnel officer, or commander of your unit or higher headquarters which identifies you and your social security number, and provides your date of entry on your current active duty period and the duration of your service.

If you were discharged from regular active duty after January 1, 1950, a copy of DD Form 214 (Certificate of Release or Discharge From Active Duty) should be included with your VA Form 26-1880. If you were discharged after October 1, 1979, DD Form 214 copy 4 should be included. The DD Form 214 should be mailed to the National Personnel Records Center (NRPCC).

If you do not have your DD form 214, you should submit a standard form 180 (Request Pertaining to Military Records) to apply for proof of military service, regardless of whether you served on regular active duty or in the selected reserves. The VA does not process this request form; rather, it is completed and mailed to the National Person Records Center (NRPCC).

National Personal Records Center
Military Personnel Records
9700 Page Avenue
St. Louis, MO 63132-5100

<http://www.nar.gov/regional/mpr.html>

You can call the NRPC telephone information lines for more information

| | |
|---------------------------|----------------|
| Army Reference Branch: | (314) 538-4122 |
| Air Force Branch: | (314) 538-4218 |
| Navy Reference Branch: | (314) 538-4200 |
| Marines Reference Branch: | (314) 538-4200 |
| Coast Guard: | (314) 538-4200 |

Usually there is no charge for military personnel and health record information provided to veterans, next-of-kin and authorized representatives. If your request involves a service fee, you will be notified.

It may take up to six months before you receive your DD form 214, so it is best not to send a follow-up request immediately, as this may cause further delays.

If you were discharged from the Selected Reserves or the National Guard, you must include copies of adequate documentation of at least six years of honorable service.

3. RESTORATION OF ENTITLEMENT

If you have previously used your loan guaranty benefits, you may apply for the restoration of these benefits if:

- ✚ The home has been sold and
- ✚ The loan is now paid in full, or assumed by a veteran who has entitlement to substitute for the amount of entitlement originally used on the loan; or
- ✚ On a one-time only basis, the veteran still owns the property by the loan is now paid in full.

To apply for restoration of entitlement, submit a VA form 26-1880 and the original Certificate of Eligibility to the VA in order to get a new Certificate of Eligibility. You should also submit a copy of the Department of Housing and Urban Development's HUD – 1 form (pgs. 1 & 2), or other appropriate evidence of payment in full.

4. INCOME REQUIREMENTS FOR A VA HOME LOAN

A. Employment Verification:

Generally, proof of a minimum of two years' employment is required. If your present employer has employed you for less than two years, you can verify prior employment plus present employment to cover two years, or provide an explanation of why you cannot verify two years' employment.

B. Debt -to-Income

The VA's debt-to-Income ratio is a ratio of total monthly debt payments (housing expenses, installment debts, etc.) to gross monthly income . If you have a ratio greater than **41%**, you will require a compensating factor such as:

- ✚ Sizable down payment
- ✚ The existence of equity in refinancing loans
- ✚ Little or no increase in shelter expense
- ✚ Military benefits
- ✚ Satisfactory homeownership experience
- ✚ High residual income
- ✚ Tax credits for childcare
- ✚ Tax benefits of home ownership

5. CREDIT REQUIREMENT'S FOR A VA HOME LOAN

A. Rent and Mortgage Payment History

Your rental history and any outstanding, assumed or recently retired mortgages must be verified and rated. Your housing expense payment history is often the best indicator of your ability to make timely mortgage payments in the future.

B. Credit History

If you have no established credit history, the investor may base the determination on your payment record on utilities, rent, automobile insurance or other expenses that you have paid. Lack of a credit history is not necessarily a mark against you. It may result when:

- ✦ You have recently been discharged, and have not had an opportunity to develop a credit history.
- ✦ You routinely use cash rather than credit.
- ✦ You have not used credit since some disruptive credit event, such as bankruptcy or debt probation through consumer credit counseling. In these cases, present proof of timely payment of no-installment obligations such as rent and utilities since the disruptive credit event will be required.

C. Accounts in the Spouse's Name

Upon the applicant's request, lenders must consider any account reported in the name of the applicant's spouse or former spouse that the applicant can demonstrate accurately reflects his or her creditworthiness.

D. Consideration of the spouse's Credit History

The credit of a spouse will not be checked if the spouse is not contractually obligated on the loan, except:

- ✦ If the applicant is relying on alimony, child support or maintenance payments from the spouse (or former spouse)
- ✦ If the property is located in a community property state, the 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 borrower and spouse choose to have the spouse's income considered)

If a married veteran wants to obtain the loan in his or her name only, the veteran may do so without regard to the spouse's credit only in a non-community property state.

E. Adverse Data

In circumstances not involving bankruptcy, satisfactory credit is generally considered to be reestablished after you have made satisfactory payments for 12 months after the date of the last derogatory credit item. If it is determined that your credit is satisfactory in spite of derogatory credit information, include an explanation of the basis for the determination.

For unpaid debts or debts that have not been paid timely, paying off these debts after the acceptability of your credit is questioned does not alter the unsatisfactory record of payment.

Lenders may consider a veteran's claim of bona fide or legal defenses regarding unpaid debts, except when the debt has been reduced to judgment.

Collection accounts do not necessarily have to be paid off as a condition for loan approval. Account balances reduced to judgment by a court must be either paid in full, or subject to a repayment plan with a history of timely payments.

F. Consumer Credit Counseling Plan

If you have prior adverse credit and are participating in a Consumer Credit Counseling plan, you may be determined to be a satisfactory credit risk if you demonstrate 12 months' satisfactory payments, and the counseling agency approves the new credit. If you are participating in a Consumer Credit Counseling plan and have good prior credit, such participation is to be considered a neutral or even positive factor in determining creditworthiness.

G. Bankruptcy

If a bankruptcy exists in your credit history, it does not in itself disqualify the loan. You will need to provide complete information on the facts and circumstance for the bankruptcy, so the investor can consider the reasons for the bankruptcy and the type of bankruptcy filed. If the bankruptcy was discharged more than two years ago, it may be disregarded. If the bankruptcy was discharged within the last one to two years, it is probably not possible to determine if you have a satisfactory credit risk unless both of the following requirements are met:

- ✚ You have obtained consumer items on credit subsequent to the bankruptcy and have satisfactorily made payments over a continued period; and
- ✚ The bankruptcy was caused by circumstances beyond your or your spouse control. I.e. unemployment, prolonged strikes, medical bills not covered by insurance. These circumstances must be verified. Divorce is not generally viewed as beyond our control.

If the bankruptcy was caused by failure of the business of a self-employed applicant, it may be possible to determine that the applicant is a satisfactory credit risk if:

- ✚ The applicant obtained a permanent position after the business failed
- ✚ There is no derogatory credit information prior to self-employment.
- ✚ There is no derogatory credit information subsequent to the bankruptcy; and
- ✚ Failure of the business was not due to misconduct.

If you have been discharged in bankruptcy within the past year, it will not generally be possible to determine if you are a satisfactory credit risk.

H. Chapter 13 of the Bankruptcy Code

This type of filing indicates an effort to pay creditors. Regular payments are made to a court-appointed trustee over a two to three year period (in some cases, up to five years) to pay off scaled-down or entire debts. If you have finished making all payments satisfactorily, the lender may conclude that you have reestablished satisfactory credit. If you satisfactorily make at least 12

months' worth of the payments and the Trustee or the Bankruptcy Judge approves of the new credit, the lender may give favorable consideration.

I. Foreclosures

If a home loan foreclosure (or deed-in-lieu of foreclosure) exists in your (or your spouse's) credit history, you are not necessarily disqualified for a loan. You will need to provide information on the facts and circumstances of the foreclosure. The same guidelines provided for bankruptcies apply for foreclosures. If the foreclosure was on a VA loan, you may not have full entitlement available for the new loan. Your certificate of Eligibility will reflect the amount of VA entitlement to meet any secondary marketing requirements of the lender.

6. SAVINGS REQUIREMENTS FOR A VA HOME LOAN

You must have sufficient cash to cover any closing costs or points, which are the buyer's responsibility and are not financed in the loan. If the sales price exceeds the reasonable value established by the VA, you must also cover the difference between the sales price and the loan amount. The VA does not require that you have additional cash to cover a certain number of mortgage payments, unplanned expenses or other contingencies. However, your ability to accumulate liquid assets and the current availability of liquid assets for unplanned expenses should be considered in the overall credit analysis.

7. Financing, Interest Rates and Terms

The VA no longer prescribes interest rates for VA-guaranteed loans. You may obtain a loan with a fixed interest rate, which is negotiated with the lender. If the lender charges discount points on the loan, you may negotiate with the seller as to who will pay points, or if they will be split between buyer and seller. Points paid by the veteran may not be included in the loan, except that a maximum of two points may be included in interest rate reduction refinancing loans. The term of the loan may be for as long as 30 years and 32 days.

The VA normally does not require a down payment; however, it does require a down payment for a manufactured home or lot loan, a loan with graduated payment features, and finally, to prevent the amount of a loan from exceeding

the VA's determination of the property's reasonable value. If the sale price exceeds the reasonable value, the veteran must certify that the difference is being paid in cash without supplementary borrowing. Cash down payment of five percent of the purchase prices is required for manufactured homes or lot loans.

8. FEES AND CLOSING COSTS FOR A VA HOME LOAN

Payment in cash is required on all home loan-closing costs, including title search and recording, hazard insurance premiums, prepaid taxes and 1% origination fee, which may be required by lenders in lieu of certain other costs. In the case of refinancing loans, all such costs may be included in the loan, as long as the total loan does not exceed 90% of the reasonable value for the property. Interest rate reduction refinancing loans may include closing costs and a maximum of two w\discount points. Loans (including refinancing loans) are charged a funding fee by the VA, except for loans made to disabled veterans and un-remarried surviving spouse of veterans who died as a result of service. The VA funding fee is based on the loan amount and, at the discretion of the veteran and the lender, may be included in the loan.

A. Funding Fees

| Loan Category | Veterans % of Loan | Reservis t % of Loan |
|---|-----------------------------------|-------------------------------------|
| Purchase or construction loans with down payments of less than 5%, refinancing loans and home improvement/repair loans. | 2.0 | 2.75 |
| Purchase or construction loans with down payments of at least 5% but less than 10% | 1.5 | 2.25 |
| Purchase or construction loans with down payments of 10% or more | 1.25 | 2.0 |
| Manufactured home loans | 1.0 | 1.0 |
| Interest rate reduction loans | .5 | .5 |

| | | |
|---|-----|-----|
| Assumption of VA-guaranteed loans | .5 | .5 |
| Second or subsequent use without down payment | 3.0 | 3.0 |

A basic funding of 2% must be paid to the VA by all but certain exempt veterans. A down payment of 5% or more will reduce the fee to 1.5%, and a 10% down payment will reduce it to 1.25%. A funding fee of 2.75% must be paid by all eligible Reserve/National Guard individuals. A down payment of 5% or more will reduce it to @%. The funding fee for loans to refinance an existing VA home loan with a new VA home loan to lower the existing interest rate is 0.5%. Veterans who are using entitlement for a second or subsequent time and do not make a down payment of at least 5% are charged a funding fee of 3%.

Note: For all VA home loans, the funding fee may be paid in cash, or it may be included in the loan.

B. Closing Costs

Reasonable closing costs may be charged by the lender and may not be included in the loan. The VA protects veterans and regulates those closing costs that a veteran may be charged in connection with closing a VA loan. Closing costs may vary among lenders because of differing local laws and customs. The following items may be paid by the veteran purchaser, seller or shared purchaser.

- ✚ VA appraisal and compliance inspector fees (you may pay for a second appraisal if you are requesting reconsideration of value.
- ✚ VA funding fees
- ✚ Credit reports
- ✚ Loan origination fee (usually 1% of the loan)
- ✚ Discount points
- ✚ Title search and title insurance
- ✚ Recording fees and recording taxes, or other charges incident to recordation

- ✚ State and/or local transfer taxes, if applicable
- ✚ Survey
- ✚ Hazard insurance
- ✚ Surveys, if required by the lender or veteran
- ✚ Federal Express, Express mail or a similar service when the saved per diem interest cost to the veteran will exceed the cost of the special handling.

No commissions, brokerage fees or “buyer broker” fees may be charged to the veteran buyer.