



## VA Mortgage Guide Summary

### What's Inside:

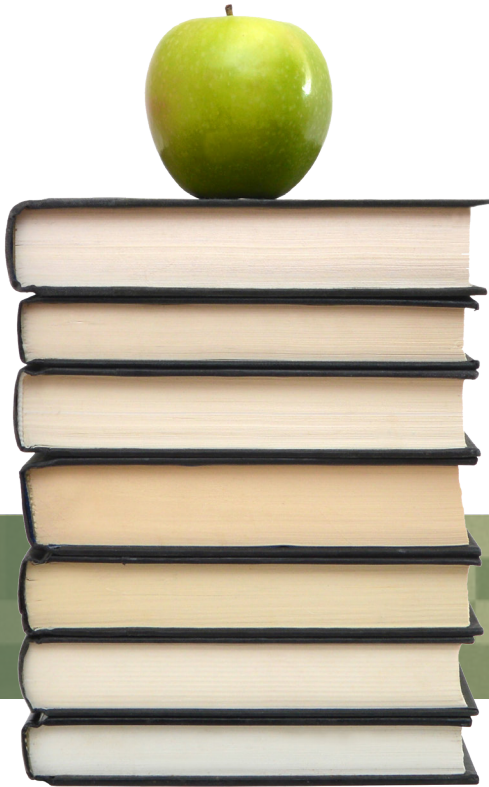
1. Loan Program Summary
2. The VA Home Buying Process
3. VA Home Loan Programs
4. VA Eligibility
5. VA Funding Fee
6. VA Non-Allowable Fees
7. VA Property Requirements
8. VA Appraisal Process
9. VA vs. FHA and Conventional
10. VA Defaulted Property Products



**VAREP**  
VETERANS ASSOCIATION OF  
REAL ESTATE PROFESSIONALS

# LOAN PROGRAM SUMMARY

## VA Loan Highlights



The abbreviation VA stands for "Veterans Affairs." The United States VA department began insuring home loans for our military veterans in 1944 as part of a plan to combat the devastating aftermath associated with war.

The VA department does not fund, approve or close VA Home Loans themselves. They do however set forth the guidelines that mortgage lenders must follow when originating VA mortgages. In addition, VA insures each and every loan made to a veteran which makes it possible for mortgage lenders to offer veterans such an amazing home financing option.

To date, the VA has insured over 18 million home loans made to veterans. The loan terms extended to our military veterans provide them with an outstanding option when purchasing a new home or refinancing a current home loan.

- No Down Payment Required
- Flexible Debt to Income Ratio
- Flexible Credit Guidelines
- Competitive Interest Rate
- VA Loan Can Be Used Multiple Times
- No Pre-Payment Penalty

## Basic Rules and Regulations of a VA Loan

|  |  |
|--|--|
| What can a VA Loan be used to buy?           | Primary residence purchases only                                     |
| Maximum loan amount (varies by county):      | \$721,050 for 100% financing   |
| Down payment requirement:                    | 0% Down  |
| Available loan terms:                        | 3yr or 5yr ARM, 15, 20, 25, and 30 year fixed                        |
| Is mortgage insurance required?              | No monthly mortgage insurance <i>See "VA Funding Fee"</i>            |
| Are there property eligibility requirements? | Yes <i>See "VA Property Requirements"</i>                            |
| Income eligibility requirements:             | No minimum or maximum income limits                                  |
| Maximum debt to income ratio:                | 56.99% <i>May be higher with exceptions</i>                          |
| Minimum required credit score:               | 600  |
| Are seller paid closing costs allowed?       | Yes - up to a maximum of 4% of sale price                            |
| Are gift funds allowed?                      | Yes - borrowers can receive gifts for down payment and closing costs |

# THE VA HOME BUYING PROCESS

It's a Great Time to Buy!

## 1. Secure a Real Estate Professional

Servicemembers and veterans should find a real estate professional to work with. Someone who has a basic knowledge of the armed forces and VA Home Loan Program. The real estate professional is essential and will guide the servicemember or veteran through the maze known as the home buying process.

## 2. Find a Participating VA lender

Locate a lending institution that participates in the VA program. Borrowers may want to get "pre-qualified" at this point - that is, find out how big a loan you can afford. Lenders set their own interest rates, discount points, and closing points, so borrowers may want to shop around.

## 3. Get a Certificate of Eligibility (COE)

The Certificate of Eligibility (COE) verifies to the lender that the borrower meets the eligibility requirements for a VA loan.

## 4. Find a Home and Sign a Purchase Agreement

Work with a real estate professional and negotiate a purchase agreement. Make sure the purchase and sales agreement contains a "VA Option Clause." Here's a sample of a "VA Option Clause":

*"It is expressly agreed that, notwithstanding any other provisions of this contract, the purchaser shall not incur any penalty by forfeiture of earnest money or otherwise be obligated to complete the purchase of the property described herein, if the contract purchase price or cost exceeds the reasonable value of the property established by the Department of Veterans Affairs. The purchaser shall, however, have the privilege and option of proceeding with the consummation of this contract without regard to the amount of the reasonable value established by the Department of Veterans Affairs."*

## 5. Apply for a VA Loan

Work with the lender to complete a loan application and gather the needed documents, such as pay stubs and bank statements.

## 6. Loan Processing

The lender orders a VA appraisal and begins to "process" all the credit and income information.

## 7. Closing

The lender chooses a title company, an attorney, or one of their own representatives to conduct the closing. This person will coordinate the date/time and the property is transferred. If the borrower has any questions during the process that the lender can't answer to satisfaction, please contact the VA through the VA Regional Loan Center.



# VA HOME LOAN PROGRAMS

Choose a Program for Your Situation

Depending on your situation, there are different VA Home Loan Programs that suit your needs. We want you to make the most out of your loan, so knowing what you need is the first step.



## Purchase and Cash-Out Refinance Home Loans

The VA Purchase Home Loan helps purchase a home at a competitive interest rate often without requiring a down payment or private mortgage insurance. With a Purchase Loan, VA can help you purchase a home even if the borrower has found it difficult to find other financing. The VA Cash-Out Refinance Loans are for homeowners who want to take cash out of their home equity to take care of concerns like paying off debt, funding school, or making home improvements. The Cash-Out Refinance Loan can also be used to refinance a non-VA loan into a VA loan. The VA will guaranty loans up to 100% of the value of your home.

## Streamline Refinance Loan

The Interest Rate Reduction Refinance Loan (IRRRL) also called the "Streamline Refinance Loan" can help obtain a lower interest rate by refinancing an existing VA loan. By obtaining a lower interest rate, your monthly mortgage payment should decrease. You can also refinance an adjustable rate mortgage (ARM) into a fixed rate mortgage.

## Housing Grants for Disabled Veterans

VA provides grants to servicemembers and veterans with certain permanent and service-connected disabilities to help purchase or construct an adapted home or modify an existing home to accommodate a disability. Two grant programs exist: the Specially Adapted Housing (SAH) grant and the Special Housing Adaptation (SHA) grant.

## VA Jumbo Loan

In most veteran loan scenarios, the VA guarantees up to 25% of the total amount of the loan up to the VA loan limit in your county – which, in much of the US, is \$417,000. However if the veteran wants to purchase a home over the loan limit, then a VA Jumbo Loan would be a good option to explore. Jumbo loans range from \$417,000 up to \$1,094,625. The Jumbo Loans for VA starts at \$625,500 in Hawaii.

## Native American Direct Loan (NADL)

The Native American Direct Loan (NADL) Program helps eligible Native American Veterans finance the purchase, construction, or improvement of homes on Federal Trust Land, or reduce the interest rate on a VA loan.

## VA Reverse Mortgage

The VA reverse mortgage program is available to veterans and retirees over the age of 62. A VA reverse mortgage, like all reverse mortgages, will allow veteran homeowners to turn home equity into cash. This money can be issued to the homeowner in either a lump sum payment or in monthly payments. For the veteran, this may be a great way to supplement social security payments and military pensions. The reverse mortgages are good as long as the veteran remains in the house as their primary residence.

# VA ELIGIBILITY

## How is it Determined?

One of the first and most important steps a lender must take when helping a veteran get pre-approved for a VA Loan is to determine what their “eligibility” is.

In the world of VA mortgages, eligibility determines whether or not a veteran is eligible for a VA Home Loan. The VA outlines a Veterans eligibility on a document they call a Certificate of Eligibility (COE).

Active Military and Veteran who prefer to order their own COE, they have two options:

1. Complete a VA Form 26-1880, Request for a Certificate of Eligibility, online through eBenefits.  
Visit: [www.eBenefits.va.gov](http://www.eBenefits.va.gov)
2. Submit a completed VA Form 26-1880, Request for a Certificate of Eligibility, to the Atlanta Eligibility Center, along with proof of military service.

### Mailing address:

VA Loan Eligibility Center  
PO Box 100023  
Decatur, GA 30031  
Phone # (888) 768-2132



|  |  |   |                      |
|--|--|---|----------------------|
| Department of Veterans Affairs<br><b>REQUEST FOR A CERTIFICATE OF ELIGIBILITY FOR VA HOME LOAN BENEFITS</b>  |  | Department of Veterans Affairs<br>Eligibility Center<br>P.O. BOX 20729<br>Winston-Salem, NC 27120   |                      |
| NOTE: Please read information on reverse before completing this form. If additional space is required, attach a separate sheet.  |  |   |                      |
| A. FIRST MIDDLE LAST NAME OF VETERAN<br>B. DATE OF BIRTH   |  | C. MAIL CERTIFICATE OF ELIGIBILITY TO (Complete ONLY if the Certificate is to be mailed to an address different from the one listed in item A)<br>D. TELEPHONE NUMBER |                      |
| E. ADDRESS OF VETERAN (No. street or rural route, city or P.O., State and ZIP Code)  |  |   |                      |
| 5. MILITARY SERVICE DATA (ATTACH PROOF OF SERVICE - SEE PARAGRAPH "D" ON REVERSE)  |  |   |                      |
| A. ITEM  | B. PERIODS OF ACTIVE SERVICE (DATE FROM - DATE TO)     | C. NAME (Show your name exactly as it appears on your separator papers or Statement of Service)   | F. BRANCH OF SERVICE |
| 1.   |  |   |                      |
| 2.   |  |   |                      |
| 3.   |  |   |                      |
| 7A. WERE YOU DISCHARGED, RETIRED OR SEPARATED FROM SERVICE BECAUSE OF DISABILITY OR DO YOU NOW HAVE ANY SERVICE-CONNECTED DISABILITIES?<br><input type="checkbox"/> YES <input type="checkbox"/> NO (If "Yes," complete item 7B) |  | 7B. VA CLAIM FILE NUMBER  |                      |
| 8. PREVIOUS VA LOANS (Must answer N/A if no previous VA home loan. DO NOT LEAVE BLANK)   |  |   |                      |
| A. ITEM  | B. TYPE (Home, Refinance, Manufacture Home, or Direct) | C. ADDRESS OF PROPERTY  | D. DATE OF LOAN      |
| 1.   |  |   |                      |
| 2.   |  |   |                      |
| 3.   |  |   |                      |
| 4.   |  |   |                      |
| 5.   |  |   |                      |
| 6.   |  |   |                      |
| I CERTIFY THAT the statements herein are true to the best of my knowledge and belief.<br>9. SIGNATURE OF VETERAN (do NOT print)  |  |   |                      |
| FEDERAL STATUTES PROVIDE SEVERE PENALTIES FOR FRAUD, INTENTIONAL MISREPRESENTATION, CRIMINAL CONVICTION OR CONSPIRACY PURPORTING TO INFLUENCE THE ISSUANCE OF ANY QUANTITY OF INSURANCE BY THE SECRETARY OF VETERANS AFFAIRS.    |  | 10. DATE SIGNED   |                      |
| FOR VA USE ONLY  |  |   |                      |
| 11A. DATE CERTIFICATE ISSUED   |  | 11B. SIGNATURE OF VA AGENT  |                      |
| VA FORM 26-1880 SEPTEMBER 2018 (REV. 01-2018) SUPERSEDES VA FORM 26-1880, JAN 2008, WHICH WILL NOT BE USED.  |  |   |                      |

Example of a Certificate of Eligibility (COE)

A veteran’s eligibility for a VA home loan is determined and measured by what type and what amount of entitlement they have. The most common type of entitlement is called “Basic Entitlement.” There are a few things that may cause a veteran not to have full Basic Entitlement.

They include:

1. A previous foreclosure on a VA Loan
2. Already owning real estate that is secured by a VA Loan

If a veteran does not have full Basic Entitlement their ability to qualify for a VA loan based solely on Basic Entitlement may be impacted. VA has developed something called “Bonus Entitlement” for these situations. Bonus Entitlement can help veterans who do not have sufficient Basic Entitlement to still purchase a home using a VA loan.

Bonus entitlement is a bit more complex than Basic Entitlement. Please contact a qualified VA Lender if you have any questions.

# VA FUNDING FEE

## How it Works

In order to maintain a healthy insurance fund (which is what allows the VA to continue to insure VA loans) each veteran pays an insurance premium called the "VA Funding Fee" (see exception below). The VA Funding Fee charged depends upon the veteran's level of service, the type of transaction (purchase or refinance), how many times the veteran has used their VA mortgage benefits, the veteran's disability status with the VA and the down payment the veteran makes on a purchase. See the charts below for specific VA funding fee rates.



### VA Funding Fee Rates - Purchase

| Amount of times veteran has used VA MTG Benefit | Regular Active | Regular Active | Reservist / NG | Reservist / NG |
|---|----------------|----------------|----------------|----------------|
|   | 1st Time Use   | Subsequent Use | 1st Time Use   | Subsequent Use |
| 0% Down Payment                                 | 2.15%          | 3.30%          | 2.40%          | 3.30%          |
| 5% Down Payment                                 | 1.50%          | 1.50%          | 1.75%          | 1.75%          |
| 10% Down Payment                                | 1.25%          | 1.25%          | 1.50%          | 1.50%          |

NG = National Guard

### VA Funding Fee Rates - Refinance

| Amount of times veteran has used VA MTG Benefit | Regular Active | Regular Active | Reservist / NG | Reservist / NG |
|---|----------------|----------------|----------------|----------------|
|   | 1st Time Use   | Subsequent Use | 1st Time Use   | Subsequent Use |
| Cash Out or Reg Refi                            | 2.15%          | 3.30%          | 2.40%          | 3.30%          |
| IRRL aka "Streamline Refi"                      | 0.50%          | 0.50%          | 0.50%          | 0.50%          |

#### IMPORTANT VA FUNDING FEE EXEMPTION:

If the VA considers a veteran disabled, then the veteran is exempt from paying a funding fee and their funding fee factor is 0%.

#### Sample VA Funding Fee Calculation

The following example is based on a veteran that is using their VA mortgage benefits for the first time to purchase a \$200,000 home with 0% down.

$$\begin{array}{r}
 \$200,000 \text{ Loan Amount} \\
 \times \quad 2.15\% \text{ Appropriate Funding Fee Factor} \\
 \hline
 \$4,300 \text{ VA Funding Fee} \\
 + \quad \$200,000 \text{ Loan Amount} \\
 \hline
 \$204,300 \text{ Final VA Loan Amount}
 \end{array}$$

# VA NON-ALLOWABLE FEES

## What Are They?

VA does not allow a veteran using a VA loan to purchase a home to pay for certain fees. They call these fees "VA Non-Allowable Fees." Any party involved in the transaction other than the veteran (lender, real estate agent and seller) may pay for them.



### Non-Allowable Fees Include:

- Lender's appraisals that are required in addition to the VA appraisal
- Lender's inspections (*except in construction loan cases*)
- Loan closing or settlement fees
- Document preparation fees
- Preparing loan papers or conveyance fees
- Attorney's services other than for title work
- Photographs
- Interest rate lock-in fees
- Postage and other mailing charges, stationery, telephone calls, and other overhead
- Tax service fees
- Amortization schedules, pass books, and membership or entrance fees
- Escrow fees or charges
- Notary fees
- Commitment fees or marketing fees of any secondary purchaser of the mortgage and preparation and recording of assignment of mortgage to such purchaser
- Trustee's fees or charges
- Loan application or processing fees
- Fees for preparation of truth-in-lending disclosure statement
- Fees charged by loan brokers, finders, or other third parties whether affiliated with the lender or not

On a typical VA purchase transaction, the VA non-allowable fees total anywhere from \$1,000 to \$1,500. Oftentimes, the seller is the party that pays for these fees. However, there is an option that allows the lender to pay for all VA non-allowable fees in situations where the seller refuses to pay.

# VA PROPERTY REQUIREMENTS

Safe, Sound, Sanitary

Property condition is one of the factors involved in obtaining full loan approval. Each loan type has its own set of guidelines that are used to measure the eligibility of a subject property.

When a VA appraiser visits a property they assess the home's market value. They also evaluate the home to make sure it meets the general property requirements set forth by the VA. The VA has created a very specific set of guidelines they call Minimum Property Requirements or "MPRs." A VA appraiser will utilize these MPRs to determine if a property is eligible for a VA mortgage. Generally speaking, VA appraisers measure a property against three primary standards. They require that the property is **Safe, Sound and Sanitary**.

If a property's condition violates any or all of these standards according to a VA appraiser, that appraiser will require that the violation be remedied either before the loan closes or after the closing through a fully approved escrow holdback (the VA does not allow veteran/buyer to fund escrow holdback). While minor and cosmetic property deficiencies are not considered grounds for ineligibility, they may factor into the appraiser's valuation of the home.

## Primary VA Minimum Property Requirements (MPRs)

### Each Residential Unit Must Have Space For:

- Living
- Cooking and dining - property needs stove installed
- Sleeping
- Sanitary facilities

### Mechanical Systems must:

*(Pool, Plumbing, Heating/Cooling, etc.)*

- Have reasonable utility, durability and economy
- Be safe to operate (must be in good shape!)
- Pool must be functional at the time of closing

### Heating Requirements:

- Heating must be adequate and comfortable for living conditions
- Homes with a wood burning stove must also have a conventional heating system
- Homes with a solar heating system must be 100% backed by a system as reliable as a conventional heating system
- Air conditioning is not required

### Water Supply Requirements:

*Each property must have:*

- Domestic hot water
- Continuing supply of safe/potable water for drinking and other household uses
- Sanitary facilities and a safe method of sewage disposal

### Roofing Requirements:

*The property's roof must:*

- Prevent entrance of moisture
- Provide reasonable future utility, durability and economy of maintenance



VA also has a set of specific guidelines relative to a property's crawl space(s), ventilation and electricity. Please contact VAREP if you have any additional questions about VA MPRs.



# VA APPRAISAL PROCESS

## Following the Steps

The purpose of an appraisal is to help a mortgage lender determine the fair market value and general physical condition of the property that will serve as collateral for your new home loan.



## Appraisal Steps

### 1. Order the Appraisal

We (your lender) submit an appraisal request to the VA on your behalf. The VA randomly assigns a VA licensed appraiser to inspect and appraise your home. The VA appraiser has 10 days by law to inspect the property once the appraisal request has been received.

### 2. Research

The assigned VA appraiser visits and inspects the property. The appraiser reviews the home's livable square footage, features/upgrades, general overall condition and the property's systems.

*(heating/cooling, plumbing etc.)*

### 3. Valuation

The assigned VA appraiser researches recently closed home sales in the same vicinity as the subject property. He or she finds similar homes that compare to the subject property. This data, combined with information from Step 2, helps the appraiser determine the subject property's value.

### 4. Delivery

Once the assigned VA appraiser has completed both the valuation and research processes, a completed VA appraisal report is emailed to your lender. A copy of the report is also sent directly to you (the buyer). The overall VA appraisal process can take up to 10 business days.

# VA VERSUS FHA AND CONVENTIONAL

## Knowing the Differences



### Significance of the VA Funding Fee and the FHA Up Front Mortgage Insurance Premium (UFMIP)

The VA funding fee and the FHA Up Front Mortgage Insurance Premium are used for defaults. The VA funding fee is used for VA guarantees.

The VA is self-funding which means that the VA funding fee is used to cover all management costs and defaults associated with the VA home loan. FHA is getting more public scrutiny these days while VA is more favorable and has lower default rates. FHA has higher default rates and under its current conservatorship, has had to ask for money from congress to cover losses due to lack of funds. Lenders require the FHA UFMIP and the VA funding fee to help protect them against loss in the event of a foreclosure.

One of the main benefits of the VA home loan is the fact that the veteran does not need a down payment. This is a huge benefit, but compared to FHA, the real difference can be seen in the monthly payment because the VA home loan does not require monthly mortgage insurance. Below we show a side-by-side comparison of a VA and FHA loan.

|                    | VA              | FHA                             |
|--------------------|-----------------|---------------------------------|
| Purchase Price     | \$400,000       | \$400,000                       |
| Interest Rate      | 3.75%           | 3.75%                           |
| Down Payment       | Zero (\$0)      | 3.5% (\$14,000)                 |
| Up Front Fee       | 2.15% (\$8,600) | 1.75% (\$6,755)                 |
| Mortgage Insurance | Zero (\$0)      | 1.25% (\$409 per month)         |
| Loan Amount        | \$408,600       | \$392,755                       |
| Payment            | \$1,892         | \$2,228 (\$1,819 + \$409 - PMI) |

### Where VA Shines versus FHA

First, the VA buyer did not need the \$14,000 for the down payment. Second, even though the VA buyer paid \$1,845 more for the Up Front Fee than the FHA buyer, the VA buyer will not have to pay the additional \$402 per month for mortgage insurance. The overall savings for the VA buyer is thousands of dollars.

### VA Compared to Conventional Loan Programs

One of the biggest differences between the VA loan and Conventional loan programs has to do with the down payment requirements of the two programs. With the VA home loan, no money is required for a down payment. A conventional loan requires a buyer to put 20% down or have mortgage insurance (MI). Mortgage insurance qualifications are very dynamic and can be restrictive. Having mortgage insurance on a loan also means there is a second set of guidelines for the MI company that your buyer will need to meet in addition to the standard lender guidelines. This is only one area that creates a challenge; the other is of course the cost associated with MI payments. Conventional loan programs also have tighter requirements for qualification. While FHA loan guidelines will change by committee, conventional loan programs can change guidelines overnight as we witnessed during 2007 and 2008.

# VA DEFAULTED PROPERTY PRODUCTS

## Important Information



The VA has a longstanding policy of encouraging servicers to work with veteran borrowers to explore all reasonable options to help them retain their homes, or when that is not feasible, to mitigate losses by pursuing alternatives to foreclosure.

### Short Sale

When a VA borrower starts having trouble in making VA mortgage loan payments, sometimes the only alternative to foreclosure is a short sale, also known as a VA Compromise Sale. The VA Compromise sale is based upon the VA compromise claim which states “If your property cannot be sold for an amount which is greater than or equal to what you owe on the loan, VA may pay a ‘compromise claim’ for the difference to help you complete the sale. You must contact the VA to discuss the situation and get prior approval for a sale with a compromise claim payment. Some mortgage companies are authorized by VA to approve a sale with a compromise claim.” The short sale is a last resort in many cases, but if foreclosure seems unavoidable it may be the best option.

### Deed-in-Lieu

A borrower may be able to avoid foreclosure through a deed in lieu whereby the homeowner agrees to transfer the title of the property to the lender. In return, the lender will release the borrower from all obligations from the mortgage. This is beneficial to the borrower because the negative effect of the deed in lieu on his credit score is much less than that of a foreclosure. Meanwhile, the lender benefits because he is able to forgo the expenses and the effort that are usually needed for a formal foreclosure.

### VA Loans after Foreclosure

Foreclosure is understandably a bitter pill to swallow for a lot of military homeowners. But it’s important to remember that defaulting on a home loan, even a VA-backed one, doesn’t mean another VA loan is forever out of reach. The reality is it’s possible to get another VA loan after experiencing a foreclosure, a short sale or a deed-in-lieu of foreclosure. One of the key questions is how much VA loan entitlement you have remaining, if at all, since some will be tied up in that foreclosed property. Unless a borrower defaulted on a really expensive mortgage, they may have enough VA loan entitlement left over to qualify for another loan.

### VA Loans and Bankruptcy

There are two major types of personal bankruptcy protection — Chapter 7 and Chapter 13 — and both will crush your credit. Consumers can expect their credit scores to drop by 130 to 240 points. That alone will make qualifying for a VA loan incredibly difficult, but lenders also require borrowers to be a “satisfactory credit risk.” VA-approved lenders want to see that prospective borrowers can return to a solid financial footing over a two-year period. And that means there’s almost no way for a borrower to secure financing until at least the two-year mark after a bankruptcy discharge.