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VETERANS ASSOCIATION OF
REAL ESTATE PROFESSIONALS

VA HOME LOANS

A QUICK GUIDE FOR HOMEBUYERS AND REAL ESTATE PROFESSIONALS

Disclaimer: The information contained herein is strictly provided as information only. Veterans seeking more detailed information concerning the VA home loan program may request VA Pamphlet 26-4, VA-Guaranteed Home Loans for Veterans, or VA Pamphlet 26-6, To the Home-Buying Veteran, from VA. To locate a VA facility, or to obtain more information on the VA Loan Guaranty program, visit www.va.gov and click on Facilities Locator.





WHY A VA LOAN?

The more you know about our home loan program, the more you will realize how little "red tape" there really is in getting a VA loan. These loans are often made without any downpayment at all. Aside from the veteran's certificate of eligibility and the fact that the appraiser is assigned by VA, the application process is not much different than any other type of mortgage loan. And if the lender is approved for automatic processing and the Lender Appraisal Processing Program (LAPP), as more and more lenders are now, a buyer's loan can be processed and closed by the lender without waiting for VA's approval of the credit application or for VA to review the appraisal.

Lenders are also able to use VA recognized automated underwriting systems, such as Loan Prospector and Desktop Underwriter, to facilitate the underwriting process.

FIVE EASY STEPS TO A VA LOAN

1. Apply for a Certificate of Eligibility (COE).

- To get your Certificate of Eligibility (COE) online, please go to the eBenefits portal at www.va.gov. If you already have login credentials, click the Login box, and if you need login credentials, please click the Register box and follow the directions on the screen. If you need any assistance please call the eBenefits Help Desk at 1-800-983-0937. Their hours are Monday-Friday, 8am to 8pm EST.
- Alternatively, Veterans can obtain their COE by completing VA Form 26-1880, Request for a Certificate of Eligibility, and mailing it, along with proof of military service, to the Eligibility Center (you will find the Eligibility Center's address on [VA Form 26-1880](#)). Also, Veterans who have already begun the loan application process with a lender may request the lender's assistance obtaining a COE.

2. Decide on a home to buy and sign a purchase agreement.

3. Order an appraisal from VA. (Usually this is done by the lender.)

- Ordering an appraisal can be done via the Internet using TAS (The Appraisal System). This is a centralized system that allows lenders easy and quick access to order an appraisal.





4. Apply to a mortgage lender for the loan.
 - While the appraisal is being done, the lender can be gathering credit and income information. If the lender is authorized by VA to process loans on the automatic basis (and approx. 99 percent of all VA loans are processed this way), the loan can be approved and closed upon receipt of the appraised value determination without waiting for a VA review of the credit application. VA has also approved the use of several automated underwriting systems for lenders to use in connection with VA loans. The two main systems are Loan Prospector and Desktop Underwriter. For loans that must be approved by VA, lenders send the credit package to VA. VA staff will then review it and notify the lender of the decision.
5. Close the loan and move in.





VA FINANCING – A GOOD DEAL FOR VETERANS

More than 27 million veterans and service personnel are eligible for VA financing. Even though many veterans have already used their loan benefits, it may be possible for them to buy homes again with VA financing using remaining or restored loan entitlement.

Before arranging for a new mortgage to finance a home purchase, veterans should consider some of the advantages of VA home loans:

- Most important consideration, no downpayment is required in most cases.
- Loan maximum may be up to 100 percent of the VA-established reasonable value of the property. Due to secondary market requirements, however, loans generally may not exceed \$417,000 (\$625,500 for loans in Hawaii, Alaska, Guam and U.S. Virgin Islands). This figure is subject to change each year.
- Flexibility of negotiating interest rates with the lender.
- No monthly mortgage insurance premium to pay.
- Limitation on buyer's closing costs.
- An appraisal, which informs the buyer of estimated property value.
- Thirty-year loans with a choice of repayment plans.
- Traditional fixed payment: (constant principal and interest: increases or decreases may be expected in property taxes and homeowner's insurance coverage); Graduated Payment Mortgage-GPM (low initial payments which gradually rise to a level payment starting in the sixth year); and in some areas, Growing Equity Mortgages-GEMs (gradually increasing payments with all of the increase applied to principal, resulting in an early payoff of the loan). Hybrid ARMs: VA is authorized to guarantee hybrid ARM loans where the initial rate remains fixed for at least 3 years. The initial adjustment can be as much as 2 percent if the fixed rate period is 5 or more years. Annual adjustments thereafter are limited to 1 percent if the fixed rate period is less than 5 years, and 2 percent if the fixed rate period is 5 or more years. If the fixed rate period is less than 5





years, the initial adjustment is limited to 1 percent and the annual cap to 5 percentage points. Traditional ARM loans: VA can also guarantee traditional 1-year ARM loans where the rate is adjusted annually. Annual adjustments are limited to 1 percent and the maximum interest rate increase over the life of the loan is limited to 5 percentage points.

- New homes, which are appraised before or during construction, are inspected to help ensure compliance with the plans and specifications used for the appraisal and with VA minimum property requirements. All new houses, regardless of when appraised, are covered by either a 1-year builder's warranty or a 10-year insured protection plan.
- An assumable mortgage, subject to VA approval of the assumer's credit.
- Right to prepay loan without penalty.
- VA performs personal loan servicing and offers financial counseling to help veterans avoid losing their homes during temporary financial difficulties.

WHAT IS A VA-GUARANTEED LOAN?

These loans are made by a lender, such as a mortgage company, savings and loan, or bank. VA's guaranty on the loan protects the lender against loss if the payments are not made, and is intended to encourage lenders to offer veterans loans with more favorable terms. The amount of guaranty on the loan depends on the loan amount and whether the veteran used some entitlement previously. With the current maximum guaranty, a veteran who hasn't previously used the benefit may be able to obtain a VA loan up to \$417,000 (\$625,500 for loans in Hawaii, Alaska, Guam and U.S. Virgin Islands), depending on the borrower's income level and the appraised value of the property. Your VA Regional Loan Center can provide more details on guaranty and entitlement amounts.





WHAT CAN A VA LOAN BE USED FOR?

- To buy a home, a condominium unit in a VA-approved project, or to purchase a unit in a cooperative (co-op).
- To build a home.
- To simultaneously purchase and improve a home.
- To improve a home by installing energy-related features such as solar or heating/cooling systems, water heaters, insulation, weather-stripping/caulking, storm windows/doors, or other energy efficient improvements approved by the lender and VA. These features may be added to the purchase of an existing dwelling or by refinancing a home owned and occupied by the veteran. A loan can be increased up to \$3,000 based on documented costs or up to \$6,000 if the increase in the mortgage payment is offset by the expected reduction in utility costs. A refinancing loan may not exceed 90 percent of the appraised value plus the costs of the improvements. Check with a lender or VA for details.
- To refinance an existing home loan up to 90 percent of the VA-established reasonable value or to refinance an existing VA loan to reduce the interest rate.
- To buy a manufactured home and/or lot.

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WHO IS ELIGIBLE?

Veterans with active duty service, that was not dishonorable, during World War II and later periods, are eligible for VA loan benefits. World War II (September 16, 1940 to July 25, 1947), Korean conflict (June 27, 1950 to January 31, 1955), and Vietnam era (August 5, 1964 to May 7, 1975) veterans must have at least 90 days of service. Veterans with service only during peacetime periods and active duty military personnel must have had more than 180 days of active service. Veterans of enlisted service which began after September 7, 1980, or officers with service beginning after October 16, 1981, must in most cases have served at least 2 years.

Gulf War. Basically, reservists and National Guard members who were activated on or after August 2, 1990, served at least 90 days and were discharged honorably, are eligible. VA can assist with eligibility questions.

Members of the Selected Reserve, including National Guard, who are not otherwise eligible and who have completed 6 years of service and have been honorably discharged or have completed 6 years of service and are still serving, may be eligible. Contact the VA Eligibility Center to find out what is needed to establish eligibility. Reservists will pay a slightly higher funding fee than regular veterans. (See paragraph entitled "Costs of Obtaining a VA Loan.")





HAD A VA LOAN BEFORE?

Remaining Entitlement

Veterans who had a VA loan before may still have "remaining entitlement" to use for another VA loan. The current amount of entitlement available to each eligible veteran is \$36,000. This was much lower in years past and has been increased over time by changes in the law. For example, a veteran who obtained a \$25,000 loan in 1974 would have used \$12,500 guaranty entitlement, the maximum then available. Even if that loan is not paid off, the veteran could use the \$23,500 difference between the \$12,500 entitlement originally used and the current maximum of \$36,000 to buy another home with VA financing. For certain loans in excess of \$144,000, the basic \$36,000 entitlement can be increased to a maximum guaranty equal to 25 percent of the Freddie Mac conforming loan limit for a single family residence, minus any previously used entitlement.

Most lenders require that a combination of the guaranty entitlement and any cash downpayment must equal at least 25 percent of the reasonable value or sales price of the property, whichever is less. Thus, in the example, the veteran's \$23,500 remaining entitlement would probably meet a lender's minimum guaranty requirement for a no-downpayment loan to buy a property valued at and selling for \$94,000. The veteran could also combine a downpayment with the remaining entitlement for a larger loan amount.

Restoration of Entitlement

Veterans can have previously-used entitlement "restored" to purchase another home with a VA loan if:

- The property purchased with the prior VA loan has been sold and the loan paid in full, or
- A qualified veteran-transferee (buyer) agrees to assume the VA loan and substitute his or her entitlement for the same amount of entitlement originally used by the veteran seller. The entitlement may also be restored one time only if the veteran has repaid the prior VA loan in full, but has not disposed of the property purchased with the prior VA loan. Remaining entitlement and restoration of entitlement can be requested through the VA Eligibility Center by completing [VA Form 26-1880](#).





HOW TO GET A VA LOAN

VA Appraisal

Because the loan amount may not exceed VA's estimate of the value of the property, the first step in getting a VA loan is usually to request an appraisal. Although anyone (buyer, seller, real estate personnel or lender) can request a VA appraisal, usually this is done by the lender via the Internet using TAS (The Appraisal System). The appraiser will send a bill for his or her services to the requester according to a fee schedule approved by VA. To simplify things, VA and HUD/FHA (Department of Housing and Urban Development/Federal Housing Administration) generally use the same appraisal forms.

It is important to recognize that while the VA appraisal estimates the value of the property, it is not an inspection and does not guarantee that the house is free of defects. Homebuyers should be encouraged to carefully inspect the property themselves, or to hire a reputable inspection firm to help in this area. VA guarantees the loan, not the condition of the property.

Application

The application process for VA financing is no different from any other type of loan. In fact, the VA application form is the same as that used for HUD/FHA and conventional loans. The mortgage lender verifies the applicant's income and assets, and obtains a credit report to see that other obligations are being paid on time. If all is well and the appraised value of the property is enough to cover the loan needed, the lender, in most instances, can then close the loan under VA's automatic procedure. Only about 1 percent of VA loan applications have to be submitted to a VA office for approval before closing.

REQUIREMENTS FOR LOAN APPROVAL

To obtain a VA loan, the law requires that:

- The applicant must be an eligible veteran who has available entitlement.
- The loan must be for an eligible purpose.





- The veteran must occupy or intend to occupy the property as a home within a reasonable period of time after closing the loan.
- The veteran must be a satisfactory credit risk.
- The income of the veteran and spouse, if any, must be shown to be stable and sufficient to meet the mortgage payments, cover the costs of owning a home, take care of other obligations and expenses, and have enough left over for family support. An experienced mortgage lender will be able to discuss specific income and other qualifying requirements.

COSTS OF OBTAINING A VA LOAN

Funding Fee

- A funding fee must be paid by all veterans using the VA home loan program, except those exempt due to receipt of disability compensation.
- The funding fee can range from 0.5 percent for Interest Rate Reduction Refinancing Loans (IRRRLs) to 3.3 percent for veterans who are subsequent users of the VA home loan program.
- For all VA loans, the funding fee may be paid in cash or included in the loan.
- For more information on the VA funding fee, contact your VA Regional Loan Center.

Other Closing Costs

Reasonable closing costs may be charged by the lender. These costs may not be included in the loan. The following items may be paid by the veteran purchaser, the seller, or shared. Closing

costs may vary among lenders and also throughout the nation because of differing local laws and customs.

- VA appraisal
- Credit report
- Loan origination fee (usually 1 percent of the loan)
- Discount points





- Title search and title insurance
- Recording fees
- State and/or local transfer taxes, if applicable
- Survey

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

NEED MORE INFORMATION?

Veterans seeking more detailed information concerning the VA home loan program may request VA Pamphlet 26-4, VA-Guaranteed Home Loans for Veterans, or VA Pamphlet 26-6, To the Home-Buying Veteran, from VA.

Remember, VA-guaranteed financing is a benefit which Congress intended eligible veterans should have. If you are a veteran home buyer or know of one, it makes sense to look into the VA loan program as a good way to finance a home purchase.

To locate a VA facility, or to obtain more information on the VA Loan Guaranty program, visit www.va.gov and click on Facilities Locator.

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