VA LOAN TOOLKIT

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For Military Families



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BEFORE YOU JUMP IN...

The VA home loan is one of the greatest benefits available to military home buyers. It offers two things: a loan with no down payment and typically a better-than-average interest rate. In this Toolkit, we'll debunk some myths about the VA loan, deep dive into what it is and what the eligibility requirements are, walk through examples using actual limits and funding fees, and even show how you can prep for the process.

Table of Contents

03 Myth vs. Fact

04 The Basics

06 The Fine Print

07 Understanding the Entitlement

09 Timeline

10 Next Steps

11 Interviewing a Lender

Military Family VA Loan
MYTH VS. FACT

1

VA LOANS TAKE WAY TOO LONG TO CLOSE.

Fact:

VA loans close just as quickly as conventional loans and even close more frequently.

There's a lingering myth that loads of red tape cause VA loans to close more slowly than conventional loans, but it's simply not true. According to national data collected by Ellie Mae, conventional loans closed in an average of 40 days while VA loans closed in an average of 41 days. Not only do VA loans tend to close just as quickly as conventional loans, but the Ellie Mae data also suggest that borrowers who take out VA loans are actually more successful in closing than those who take out conventional loans. Typically, 68% of VA loans closed while only 49% of conventional loans closed.

2

VA LOANS ARE RISKIER THAN CONVENTIONAL LOANS.

Fact:

VA loans have been the safest on the market since the housing crash of '08.

VA loans' competitive interest rates and $0 down payments often leave people thinking, "What's the catch?" Many assume that VA loans are riskier because they come with so many benefits. The fact of the matter is VA loans have had the lowest foreclosure rates of any type of mortgage for the last seven years, according to the National Delinquency Survey. Often, a real estate agent on the selling side will tell a client to turn down an offer from a buyer using a VA loan despite the offer being for MORE MONEY than the conventional loan buyer, thus costing the seller money. In the case of a VA loan, the amount of money presented as a down payment is not an indicator of the strength of the buyer.

3

VA APPRAISALS TEND TO BE CONSERVATIVE AND UNDER-VALUE HOMES.

Fact:

All appraisals cause differences of opinion, and VA appraisals are no different.

VA appraisals in some areas have a reputation for undervaluing homes, but no data suggest that these appraisals offer more conservative estimates than conventional appraisals. Instead, it seems as if the difference of opinion about property value is often attributed to the VA appraisal because it is a convenient scapegoat. A 2012 study from the National Association of Realtors® showed that 1 in 3 real estate transactions had problems because of an appraisal. The VA appraisal process, like all other appraisal processes, is influenced by subjective judgments and statistics from supposedly comparable homes, always leaving some room for disagreement.

THE BASICS

WHAT IS THE VA LOAN?

The VA loan is a mortgage backed by the Veterans Administration that requires zero down payment. The VA does not provide a loan; instead, the VA acts as the security of the loan. In layman's terms, the VA loan promises to cover the bank's losses if the borrower fails to pay the mortgage. The VA loan can be used for the purchase of a home/condo, new build, or a fixer-upper. And as we discussed above, VA loans have some of the lowest foreclosure rates on the market.

WHAT ABOUT CONVENTIONAL LOANS?

VA LOAN	VS	CONVENTIONAL
0% down		Up to 20% down
No PMI*		PMI* required
Low rates		More risk means higher rates

DO YOU QUALIFY?

Now, let's figure out if you may be eligible for this benefit.

Did you...

- **Serve on active duty during wartime for 90 consecutive days?**
- **Serve on active duty during peacetime for 181 days?**
- **Serve in the National Guard or Reserves for six years?**
- **Discharge from the service under honorable conditions?**
- **Or are you the spouse of a service member who died in the line of duty or as a result of a service-related injury or disability?**

If you said "yes" to one or more of these requirements, then you should be eligible. However, a lender won't just take your word for it. For that, you need a Certificate of Eligibility.



THE BASICS

ARE YOU ELIGIBLE?

You served on active duty during wartime for 90 consecutive days

You served on active duty during peacetime for 181 consecutive days

You served in the National Guard or Reserves for six years

You are the spouse of a service member who died in the line of duty or as a result of a service related injury or disability

CERTIFICATE OF ELIGIBILITY

In order to obtain a VA loan, you will first need a Certificate of Eligibility (COE–you can't get away from these acronyms). You can't do anything in the military without proof and a fancy certificate, and the VA is no different. A lender can help obtain this certificate, or you can get it by completing a Certificate of Eligibility Request Form (VA Form 261880). If you sign on to the site ebenefits.va.gov using your CAC card (ID card), you will be able to pull the COE.

You will also need to prove that you have stable, reliable income that will cover monthly expenses including a mortgage payment. Even with the VA security, lenders will ask you to provide proof of residual income via banking documents and other information, but more on that later.

And we are rolling along...just like the Army, but faster.



THE FINE PRINT

Wait! Don't skip this section.
Even though it says "fine print," which we all know equals "boring," it is essential to understand the details of the loan.

LIMITS

As of January 2020, the VA has eliminated loan limits. Whereas previously the VA issued loan limit amounts based on the area in which you were purchasing a home, under new law those limits are no more. So, in theory, you want to buy a million-dollar home in San Diego? Go ahead, no money down. (You'll still have to meet income, eligibility, and credit requirements, of course.) The only exception to this "no cap" policy is if you've already used some of your entitlement on a previous VA loan or if you've defaulted on a loan in the past. More on that later!

The VA also limits what type of property can be purchased with a VA loan. It must be a single unit and be your primary residence, meaning it must be the house where you will be living full-time.

Another eligibility requirement for a VA-secured loan, besides having the income to cover the costs, is having a "good" credit score. The required score varies from lender to lender. There is no standard score minimum, and acceptable credit is judged on a case-by-case basis.

FUNDING FEES

The funding fee pays for the program and is roughly 2.15 percent of the purchase price. This amount usually rolls into the mortgage, so you don't have to pay out of pocket for it. If you use the VA loan a second time (more on that later), the fee increases to 3.3 percent, but again can be rolled into the mortgage. In the past, funding fees differed based on your position in the military, such as reserves or National Guard; however, as of 2020, funding fees are the same for all military home buyers.

On the topic of fees, while you will have to foot some closing costs and the funding fee, the VA sets a limit for the total allowable closing costs for veterans. Moreover, according to the new law effective in 2020, active-duty service members who have been awarded the Purple Heart are not required to pay this funding fee.

PRO TIP

You can have the funding fee waved if you are a veteran who receives disability from the VA or if you are an unmarried surviving spouse. If the disability occurred before the home purchase, sometimes the VA will even issue a refund if you have already paid the funding fee. Your disability pay also counts as income.

UNDERSTANDING THE ENTITLEMENT



As of January 1, 2020, there are no longer any limits from the Veterans Administration on how much you can borrow from a lender to finance your home. This applies to any veteran who still has the "full entitlement," meaning they own no other home with a VA loan. However, the VA does not actually lend money. Rather, they guarantee 25% of the loan amount if you were to go into default, which why lenders are willing to lend to you. They are guaranteed to get at least 25% of the financed amount if you were to default on your payments and the house were to go into foreclosure.

Only qualified financial institutions like banks, credit unions, and mortgage companies lend money to consumers to buy homes. So while the VA places no limit on the amount you can borrow, the lender does determine how much you qualify to borrow based on a variety of factors. These factors can include credit scores, current income levels, debt-to-income ratios, and other financial considerations.

County loan limits still apply to veterans who have previously used, and not restored, their VA home loan entitlement to purchase, refinance, or construct a home above $144,000.

Your entitlement can only be fully restored when the other property is either sold or refinanced as a conventional loan or when the loan is paid in full. If you want to purchase another home without fulfilling these criteria, the VA will only guarantee your total outstanding loan amount up to the county loan limit of the home you wish to purchase next based on how much of your entitlement remains.

Let's start with an easy example:

FIRST-TIME HOME BUYER USING VA LOAN

You're buying your first house with a VA loan near Fort Campbell in Clarksville, TN (Montgomery County). The VA loan limit is for Montgomery County is $766,550 but because you have not used a VA loan before, the county limit does not prevent you from buying something more expensive, assuming you qualify. Let's say you get pre-qualified by a lender to purchase up to a $800,000 house. However, you don't want to overextend yourself financially, so you look for a more modest purchase. We'll assume the loan amount (including the 2.15 percent funding fee and all closing costs) is $400,000. Because this is your only VA loan, and assuming you meet lender qualifications, you are able to finance 100% of the loan amount with no money down. The VA loan guarantee amount is $100,000 (25% x $400,000).

UNDERSTANDING THE ENTITLEMENT

SECOND-TIER ENTITLEMENT

After buying your first home, let's say you get PCS orders to Fort Hood, TX. You'd like to keep the home you own in Clarksville as a rental property and buy another home in Killeen, TX. Because you are using a VA loan for a second time and already own another home using a VA loan, you are now subject to county VA loan limits to determine how much you can borrow to purchase the new home. Killeen, TX is in Bell County. The VA Loan limit for Bell County is $766,550 The max amount the VA would cover is 25% of the limit, which is $191,637 (25% x $766,550). For your home at Fort Campbell, you have already used $100,000 of your entitlement. Thus, you would have $91,637 remaining ($191,637-$100,000). So, the maximum home you could purchase using a VA loan with no money down would be $366,548 (4 x $91,637) You will also have to pay a 3.3% funding fee as this is a subsequent VA loan.

If you wanted to buy a second home for more than $366,548 (the loan limit based on available entitlement), you could. Assuming your lender determines you qualify financially, you can purchase above that limit, but you would need to put some money down toward the purchase.

NO LOAN LIMIT EXAMPLE

Let's dream for a moment and say you get orders to Hawaii. You sell your home near Fort Campbell, so you have now restored 100% of your VA loan entitlement. In Honolulu, the county VA loan limit is $1,149,825. The house you want to buy costs $1.4 Million. (Dreaming, we know.) Because you have full entitlement, you are not subject to the VA loan limit! Assuming your lender determines you are qualified to borrow that amount, you can finance 100% of this purchase with no money down. However, this will max out your VA benefit and you will not be able to use the loan again in another area without first selling your home.

The bottom line is, the game has changed. No more VA limit when using your home loan benefit for the first time or on a different home, assuming you sell the first one. However, this change should not get you thinking beyond your means. Purchasing a home is a big financial decision and should be based on what you can actually afford, not on what you want or what you can borrow. You can sometimes qualify to borrow substantially more than you might think, but that doesn't mean you should go to the very upper limit of what you are qualified to buy. We all dream of owning a million-dollar home, but it may not make sense for you financially. Always consider potential factors: What if I lose my job? What if my spouse loses his or her job? What if we have other financial difficulties in the future? You want to make sure that you are comfortable with the monthly mortgage payments and are prepared to cover those payments for a period of time in the event of financial hardship.

PRO TIP

While our breakdown makes it sound super attainable to have two VA mortgages, there is a specific debt-to-income ratio needed. Also, many lenders require proof (such as a signed lease) that the first home is currently rented out. They want to be sure that if you're counting on rental income to cover your first mortgage, then you actually have tenants and income in place.

TIMELINE







90+ DAYS OUT

If you are more than 90 days from purchasing a home, you can call the bank and get a pre-approval estimate. Depending on the bank/lender, they may or may not want to run your credit at this point. If they do, they will be able to offer you a very realistic view of your spending power. Most people get concerned about having their credit run too early, but this inquiry is not the same as a consumer inquiry and will not negatively impact your credit.

LESS THAN 90 DAYS OUT

Once you are within 90 days of purchasing a home, you should have a pre-approval letter in hand and be ready to do some serious shopping for a home. There are two reasons to have a pre-approval letter at this point: First, this gives you a good number to focus on when buying a home. Second, this letter is one more item to be used in the negotiation process. When a seller sees you are pre-approved and won't have any issues getting financing, the seller is far more likely to continue with the deal.

The lender you are working with will also have requirements and will explain those in the process.

NEXT STEPS



GETTING YOUR PAPERWORK IN ORDER

The bank will dig deep into your finances during the mortgage process. You can streamline this process by putting together a digital file of scanned financial documents.

- **Bank statements (2 months)**
- **Tax returns (2 years)**
- **W-2s (2 years)**
- **Other investment documentation**
- **Proof of income (LES for active duty)**
- **Orders (if PCSing)**
- **Leases for any investment properties**

PRO TIP

Pro Tip: If you're buying while PCS-ing, you need to be sure this paper-work is not packed in boxes and on a moving truck.

HOW TO FIND THE RIGHT LENDER

Where should you start when looking for a lender? Should you go with a local lender or a larger bank? Almost all lenders can offer VA loans. Remember, the bank is giving you the loan, and the VA is securing it. The process will be smoother if you opt to work with a lender who specializes in VA loans. Typically, military-serving real estate agents know and work with lenders who understand the VA loan program well. But don't limit your research to just local lenders. Larger national banks can also have competitive VA loan programs.

You will want to shop for the best loan and interest rate, as well as for excellent customer service. A lender should be able to go through the whole loan process with you from pre-approval to closing. Contact two or three lenders and interview them (using our attached questions) to get a feel for their expertise and establish yourself as a knowledgeable client.

Pro Tip: When working with a lender, inquire about their underwriting process. A smaller bank may keep the whole process in-house, typically resulting in better customer service.

INTERVIEWING A LENDER

- **Do you specialize in VA loans, and how many do you process per year?**
- **Can I include the closing costs into the loan?**
- **What is the best interest rate? Can you lock this rate?**
- **What are the points or fees associated with this loan?**
- **Will you guarantee the loan estimate?**
- **What is the underwriting process?**
- **How much underwriting can you do up front?**
- **Does the lender have the ability to approve loans “in-house”?**
- **Is there a penalty for prepayment on the loan?**
- **Can you guarantee an on-time closing?**