

**TM 4-2006-100-1-VA**

Department of Veterans Affairs & Coastal Mortgage

# VA Mortgage Benefits



## Your Veteran VA Mortgage Benefit Success Manual



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# TM 4-2006-100-1-VA

Department of Veterans Affairs & Coastal Mortgage

## VA MORTGAGE BENEFITS FACT SHEET

1. ZERO DOWN! –100% Financing
2. Loan Amounts up to \$417,000
3. Mortgage is Assumable
4. Loans for Purchase or Refinance
5. Interest Rates at or below  
Conventional Rates
6. No Private Mortgage Insurance
7. 30 Year Fixed Rates
8. 1/1, 3/1, and 5/1 ARMs

**YOU'VE EARNED IT...NOW USE IT!**



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## VA FINANCING BENEFITS

More than 29 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.

1. Before arranging for a new mortgage to finance a home purchase, veterans should consider some of the advantages of VA home loans
2. The most important consideration is that no down payment is required in most cases.
3. 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.
4. Flexibility of negotiating interest rates with the lender.
5. No monthly mortgage insurance premium to pay.
6. Limitation on buyer's closing costs.
7. An appraisal which informs you of the property's value.
8. Thirty year loans with a choice of repayment plans:
  - a. Traditional fixed payment (constant principal and interest; increases or decreases may be expected in property taxes and homeowner's insurance coverage);
  - b. Graduated Payment Mortgage - GPM (low initial payments which gradually rise to a level payment starting in the sixth year); and
  - c. In some areas, Growing Equity Mortgages - GEM (gradually increasing payments with all of the increase applied to principal, resulting in an early payoff of the loan).
9. For most loans for new houses, construction is inspected at appropriate stages to ensure compliance with the approved plans, and a 1-year warranty is required from the builder that the house is built in conformity with the approved plans and specifications. In those cases where the builder provides an acceptable 10-year warranty plan, only a final inspection may be required.
10. An assumable mortgage, subject to VA approval of the assumer's credit.
11. Right to prepay loan without penalty.
12. VA performs personal loan servicing and offers financial counseling to help veterans avoid losing their homes during temporary financial difficulties.



## HOME LOAN FREQUENTLY ASKED QUESTIONS

### ***General questions about VA loans that may arise BEFORE you get one.***

#### **What Is a VA Guaranteed Home Loan?**

VA guaranteed loans are made by private lenders, such as banks, savings & loans, or mortgage companies to eligible veterans for the purchase of a home which must be for their own personal occupancy. The guaranty means the lender is protected against loss if you or a later owner fail to repay the loan. The guaranty replaces the protection the lender normally receives by requiring a downpayment allowing you to obtain favorable financing terms.

#### **What is pre-purchase counseling and why is it helpful?**

Pre-purchase counseling gives a person information on (1) the process of buying a home, (2) the key players in the home buying process, and (3) debt management. The goal is to create a more well informed homebuyer. While VA does not require such counseling, we strongly recommend it. There is usually no charge for the housing counseling. An excellent online source of information for first time homebuyers is provided by Ginnie Mae.

[www.ginniemae.gov/1\\_learn/h\\_i\\_c.asp?section=ypth](http://www.ginniemae.gov/1_learn/h_i_c.asp?section=ypth)

To locate a housing counseling office call (800)217-6970 or visit HUDs website at [www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm](http://www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm). The Department of Housing and Urban Development (HUD) maintains both the phone number and website.

#### **Does my entitlement guarantee that I will get a home loan?**

No, VA cannot compel a lender to make a loan that would violate their lender policies. Lenders must also comply with VA income and credit standards. If a lender is unwilling to make a loan to you, we can only suggest that you try other lenders.

#### **How much is my entitlement?**

Your basic entitlement is \$36,000. For loans in excess of \$144,000 to purchase or construct a home, additional entitlement up to an amount equal to 25 percent of the Freddie Mac conforming loan limit for a single family home may be available. This loan limit changes yearly. This means that qualified veterans could get a no downpayment purchase loan of up to \$417,000 through December 31, 2006 effective January 1, 2006.

#### **Is there a maximum loan limit?**

There is no maximum VA loan. Lenders will generally lend up to 4 times the amount of a veterans entitlement without requiring a downpayment.

## How do I get a Certificate of Eligibility?

ACE (automated certificate of eligibility): It may be possible to obtain a Certificate of Eligibility from your lender. Most lenders have access to the ACE system. This Internet based application can establish eligibility and issue an online Certificate of Eligibility in a matter of seconds. Not all cases can be processed through ACE - only those for which VA has sufficient data in our records. However, veterans are encouraged to ask their lenders about this method of obtaining a certificate.

You can apply for a Certificate of Eligibility by submitting a completed [VA Form 26-1880](#), Request For A Certificate of Eligibility , to the [VA Eligibility Center](#), along with proof of military service. In some cases it may be possible for VA to establish eligibility without your proof of service. However, to avoid any possible delays, it's best to provide such evidence.

## How do I obtain a VA Home Loan?

1. Select a home and discuss the purchase with the seller or selling agent. Sign a purchase contract conditioned on approval of your VA home loan.
2. Select a lender, present them with your Certificate of Eligibility and complete a loan application.
3. The lender will develop all credit and income information. They will also request VA to assign a licensed appraiser to determine the reasonable value for the property. A Certificate of Reasonable Value will be issued. **Note:** You may be required to pay for the credit report and appraisal unless the seller agrees to pay.
3. The lender will let you know the decision on the loan. You should be approved if the established value and your credit and income are acceptable.
4. You (and spouse) attend the loan closing. The lender or closing attorney will explain the loan terms and requirements as well as where and how to make the monthly payments. Sign the note, mortgage, and other related papers.
5. The loan is sent to VA for guaranty. Your Certificate of Eligibility is annotated to reflect the use of entitlement and returned to you.

## What are the benefits of a VA home loan?

- Equal opportunity.
- No downpayment (unless required by the lender or the purchase price is more than the reasonable value of the property).
- Buyer informed of reasonable value.
- Negotiable interest rate.
- Ability to finance the VA funding fee (plus reduced funding fees with a downpayment of at least 5% and exemption for veterans receiving VA compensation).
- Closing costs are comparable with other financing types (and may be lower).
- No mortgage insurance premiums.
- An assumable mortgage.
- Right to prepay without penalty.
- For homes inspected by VA during construction, a warranty from builder and assistance from VA to obtain cooperation of builder.
- VA assistance to veteran borrowers in default due to temporary financial difficulty.

### **What can VA not do?**

- Guarantee that a home is free of defects. VA guarantees only the loan. It is your responsibility to assure that you are satisfied with the property being purchased. The VA appraisal is not intended to be an "inspection" of the property. You should seek expert advice (a qualified residential inspection service), as necessary, BEFORE legally committing to a purchase agreement.
- If you have a home built, VA cannot compel the builder to correct construction defects although VA does have the authority to suspend a builder from further participation in the home loan program.
- VA cannot guarantee that you are making a good investment.
- VA cannot provide you with legal services.

### **Is a guaranteed loan a gift?**

No, it must be repaid, just as you must repay any money you borrow. If you fail to make the payments you agreed to make, you may lose your home through foreclosure.

### **Can I get a loan for a home outside of the United States?**

Unfortunately, the law only allows VA to guarantee loans on property in the United States, its territories, or possessions.

### **Can I get a VA loan if I have had a bankruptcy in the last few years?**

The fact you and/or your spouse have been adjudicated bankrupt does not in itself disqualify you for a VA home loan. The following rules apply:

- If the bankruptcy was discharged more than 2 years ago, it **may** be disregarded
- If the bankruptcy was discharged within the last 1 to 2 years, it is probably not possible to determine that you and/or your spouse are a satisfactory credit risk unless **both** of the following requirements are met:
  - you and/or your spouse have reestablished satisfactory credit, **and**
  - the bankruptcy was caused by circumstances beyond your and/or your spouses control (such as unemployment, medical bills, etc.)
- If the bankruptcy was discharged within the past **12 months**, it will **not** generally be possible to determine that you and/or your spouse are satisfactory credit risks.

### **Why do I have to pay a fee for a VA home loan? Since I paid a fee for my first loan, why is there a larger fee for my second loan?**

The VA funding fee is required by law. The fee is intended to enable the veteran who obtains a VA home loan to contribute toward the cost of this benefit, and thereby reduce the cost to taxpayers. The funding fee for second time users who do not make a downpayment is slightly higher. The idea of a higher fee for second time use is based on the fact that these veterans have already had a chance to use the benefit once, and also that prior users have had time to accumulate equity or save money towards a downpayment. Second time users who make a downpayment of at least 5 percent pay a reduced funding fee of 1.5 percent, the same as first time users making the same downpayment. For a 10 percent downpayment, the fee drops to 1.25 percent. The effect of the funding fee on a veteran's financial situation is minimized since the fee may be financed in the loan. National Guard and Reservist veterans pay a slightly higher funding fee percentage. To determine the exact funding fee percentage, please review the [funding fee table](#).

**I want to buy a house with a VA loan. Do I need to occupy the property?**

The law requires that you certify that you intend to occupy the property as your home. This requirement is considered satisfied if you actually intend to occupy the property as your home and in fact so occupy it when the loan is closed or within a reasonable time afterward.

**I am a single veteran stationed overseas and want to buy a home in my home town. My friends who are married can do this with their spouses occupying the property in their place, but VA says I can't do this with my parents or other relatives occupying on my behalf. Isn't this discrimination against single veterans?**

The law specifically provides that occupancy by the veteran's spouse satisfies the personal occupancy requirement. The law makes no provision for occupancy by any other relatives as a substitute for personal occupancy by the veteran.

**May a veteran join with a non veteran who is not his or her spouse in obtaining a VA loan?**

Yes, but the guaranty is based only on the veteran's portion of the loan. The guaranty cannot cover the nonveteran's part of the loan. Consult lenders to determine whether they would be willing to accept applications for joint loans of this type. Lenders that are willing to make these types of loans will likely require a downpayment to cover risk on the unguaranteed, nonveteran's portion of the loan. Unlike other loans, the lender must submit joint loans to VA for approval before they are made.

Both incomes can be used to qualify for the loan. However, the veteran's income must be sufficient to repay at least that portion of the loan related to the veteran's interest in (portion of) the property and the nonveteran's income must be adequate to cover the rest.

**If a veteran dies before the loan is paid off, will the VA guaranty pay off the balance of the loan?**

No. The surviving spouse or other co-borrower must continue to make the payments. If there is no CO-borrower, the loan becomes the obligation of the veteran's estate. Mortgage life insurance is available but must be purchased from private insurance sources.



## GENERAL RULES FOR ELIGIBILITY

### Military Service Requirements for VA Loan Eligibility:

**\*NOTE:** Applications involving **other than honorable discharges** will usually require further development by VA. This is necessary to determine if the service was under other than **dishonorable** conditions.

**Wartime** - Service during:

WWII	09/16/40 to 07/25/47
Korean	06/27/50 to 01/31/55
Vietnam	08/05/64 to 05/07/75

You must have at least **90 days** on active duty and been discharged under other than dishonorable conditions. If you served less than 90 days, you may be eligible if discharged for a service connected disability.

**Peacetime** - Service during periods:

07/26/47 to 06/26/50
02/01/55 to 08/04/64
05/08/75 to 09/07/80 (enlisted)
to 10/16/81 (officer)

You must have served at least **181 days** of continuous active duty and been discharged under other than dishonorable conditions. If you served less than 181 days, you may be eligible if discharged for a service connected disability.

#### **Service after 09/07/80 (enlisted) or 10/16/81 (officer)**

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

(a) Completed **24 months** of continuous active duty or the full period (at least 181 days) for which you were ordered or called to active duty and been discharged under conditions other than dishonorable, or

(b) 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;

(c) Been discharged with less than 181 days of service for a service-connected disability. Individuals may also be eligible if they were released from active duty due to an involuntary reduction in force, certain medical conditions, or, in some instances for the convenience of the Government.

### Gulf War - Service during period 08/02/90 to date yet to be determined

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

- (a) 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
- (b) 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
- (c) been discharged with less than 90 days of service for a service-connected disability. Individuals may also be eligible if they were released from active duty due to an involuntary reduction in force, certain medical conditions, or, in some instances, for the convenience of the Government.

### 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 days)** during the Gulf War) unless discharged or separated from a previous qualifying period of active duty service.

### Selected Reserves or National Guard

If you are not otherwise eligible and you have completed a total of **6 years** in the Selected Reserves or National Guard (member of an active unit, attended required **weekend drills** and **2-week active duty for training**) and

- (a) were discharged with an honorable discharge; or
- (b) were placed on the retired list; or
- (c) 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
- (d) continue to serve in the Selected Reserves.

Individuals who completed less than 6 years may be eligible if discharged for a service-connected disability.

### You may also be determined eligible if you:

- (a) are an unremarried spouse of a veteran who died while in service or from a service connected disability, or
- (b) are a spouse of a serviceperson missing in action or a prisoner of war.

***[NOTE: Also, a surviving spouse who remarries on or after attaining age 57, and on or after December 16, 2003, may be eligible for the home loan benefit. However, a surviving spouse who remarried before December 16, 2003, and on***

*or after attaining age 57, must apply no later than December 15, 2004, to establish home loan eligibility. VA must deny applications from surviving spouses who remarried before December 16, 2003 that are received after December 15, 2004.]*

**Eligibility may also be established for:**

(a) certain United States citizens who served in the armed forces of a government allied with the United States in WWII.

(b) individuals with service as members in certain organizations, such as Public Health Service officers, cadets at the United States Military, Air Force, or Coast Guard Academy, midshipmen at the United States Naval Academy, officers of National Oceanic & Atmospheric Administration, merchant seaman with WW II service, and others.



## **FREQUENTLY ASKED ELIGIBILITY QUESTIONS**

### **Questions about who is eligible for a VA loan and reuse of eligibility for another VA loan.**

#### **Q: How do I apply for a VA guaranteed loan?**

**A:** You can apply for a VA loan with any mortgage lender that participates in the VA home loan program. At some point, you will need to get a Certificate of Eligibility from VA to prove to the lender that you are eligible for a VA loan.

#### **Q: How do I get a Certificate of Eligibility?**

**A. Complete an 1880:** You can apply for a Certificate of Eligibility by submitting a completed **VA Form 26-1880**, Request For A Certificate of Eligibility For Home Loan Benefits, to the **Winston-Salem Eligibility Center**, along with proof of military service. In some cases it may be possible for VA to establish eligibility without your proof of service. However, to avoid any possible delays, it's best to provide such evidence.

#### **Q: Can my lender get my Certificate of Eligibility for me?**

**A.** Yes, it's called **ACE (automated certificate of eligibility)**. Most lenders have access to the ACE (automated certificate of eligibility) system. This Internet based application can establish eligibility and issue an online Certificate of Eligibility in a matter of seconds. Not all cases can be processed through ACE - only those for which VA has sufficient data in our records. However, veterans are encouraged to ask their lenders about this method of obtaining a certificate.

#### **Q: What is acceptable proof of military service?**

**A:** 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 any time lost.

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. **A PHOTOCOPY OF DD214 WILL SUFFICE.....DO NOT SUBMIT AN ORIGINAL DOCUMENT.**

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 shows your date of entry on your current active duty period and the duration of any time lost.

If you were discharged from the Selected Reserves or the National Guard, you **must** include copies of adequate documentation of at least 6 years of honorable service. 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 6 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 6 years of honorable service must be documented.

**Q: How can I obtain proof of military service?**

**A: Standard Form 180, Request Pertaining to Military Records**, is used to apply for proof of military service regardless of whether you served on regular active duty or in the selected reserves. This request form is NOT processed by VA. Rather, Standard Form 180 is completed and mailed to the appropriate custodian of military service records. Instructions are provided on the reverse of the form to assist in determining the correct forwarding address.

**Q: I have already obtained one VA loan. Can I get another one?**

**A:** Yes, your eligibility is reusable depending on the circumstances. Normally, if you have paid off your prior VA loan and disposed of the property, you can have your used eligibility restored for additional use. Also, on a **one-time only** basis, you may have your eligibility restored if your prior VA loan has been paid in full but you **still own the property**. In either case, to obtain restoration of eligibility, the veteran must send VA a completed **VA Form 26-1880** to our **Winston-Salem Eligibility Center**. To prevent delays in processing, it is also advisable to include evidence that the prior loan has been paid in full and, if applicable, the property disposed of. This evidence can be in the form of a paid-in-full statement from the former lender, or a copy of the HUD-1 settlement statement completed in connection with a sale of the property or refinance of the prior loan.

**Q: I sold the property I obtained with my prior VA loan on an assumption. Can I get my eligibility restored to use for a new loan?**

**A:** In this case the veteran's eligibility can be restored only if the qualified assumer is also an eligible veteran who is willing to substitute his or her available eligibility for that of the original veteran. Otherwise, the original veteran cannot have eligibility restored until the assumer has paid off the VA loan.

**Q: My prior VA loan was assumed, the assumer defaulted on the loan, and VA paid a claim to the lender. VA said it wasn't my fault and waived the debt. Now I need a new VA loan but I am told that my used eligibility can not be restored. Why?**

Or,

**Q: My prior loan was foreclosed on, or I gave a deed in lieu of foreclosure, or the VA paid a compromise (partial) claim. Although I was released from liability on the loan and/or the debt was waived, I am told that I cannot have my used eligibility restored. Why?**

**A:** In either case, although the veteran's debt was waived by VA, the Government still suffered a loss on the loan. The law does not permit the used portion of the veteran's eligibility to be restored until the loss has been repaid in full.

**Q: Only a portion of my eligibility is available at this time because my prior loan has not been paid in full even though I don't own the property anymore. Can I still obtain a VA guaranteed home loan?**

**A:** Yes, depending on the circumstances. If a veteran has already used a portion of his or her eligibility and the used portion cannot yet be restored, any partial remaining eligibility would be available for use. The veteran would have to discuss with a lender whether the remaining balance would be sufficient for the loan amount sought and whether any down payment would be required.

**Q: Is the surviving spouse of a deceased veteran eligible for the home loan benefit?**

**A:** The unmarried surviving spouse of a **veteran who died on active duty or as the result of a service-connected disability** is eligible for the home loan benefit. If you wish to make application for the home loan benefit as a surviving spouse, contact our **Winston-Salem Eligibility Center**. In addition, a surviving spouse who obtained a VA home loan with the veteran prior to his or her death (regardless of the cause of death), may obtain a VA guaranteed interest rate reduction refinance loan. For more information, contact our **Winston-Salem Eligibility Center**.

***[NOTE: Also, a surviving spouse who remarries on or after attaining age 57, and on or after December 16, 2003, may be eligible for the home loan benefit. However, a surviving spouse who remarried before December 16, 2003, and on or after attaining age 57, must apply no later than December 15, 2004, to establish home loan eligibility. VA must deny applications from surviving spouses who remarried before December 16, 2003 that are received after December 15, 2004.]***

**Q: Are the children of a living or deceased veteran eligible for the home loan benefit?**

**A:** No, the children of an eligible veteran are not eligible for the home loan benefit.



## 5 STEPS TO A VA LOAN

1. **Apply for a Certificate of Eligibility.**  
 A veteran who doesn't have a certificate can obtain one easily by completing VA Form 26-1880, Request for a Certificate of Eligibility for VA Home Loan Benefits and submitting it to one of the Eligibility Centers with copies of your most recent discharge or separation papers covering active military duty since September 16, 1940, which show active duty dates and type of discharge.
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.)**  
 Most VA regional offices offer a "speed up" telephone appraisal system. Call the local VA office for details.
4. **Apply for a VA loan.**  
 While the appraisal is being done, the lender (mortgage company, savings and loan, bank, etc.) can be gathering credit and income information. If the lender is authorized by VA to do automatic processing, upon receipt of the VA or LAPP appraised value determination, the loan can be approved and closed without waiting for VA's review of the credit application. For loans that must first be approved by VA, the lender will send the application to the local VA office, which will notify the lender of its decision.
5. **Close the loan and move in.**

## VA LOAN PURPOSES

1. **To buy a home including townhouse or condominium unit in a VA approved project**
2. **To build a home**
3. **To simultaneously purchase and improve a home**
4. **To improve a home by installing energy related features such as solar or heating/cooling systems, water heaters, insulation, weatherstripping, caulking, storm windows/doors or other energy efficient improvements approved by the lender and VA. These features may be added with 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.**
5. **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.**
6. **To buy a manufactured home and/or lot.**

## VA LOAN COSTS

A basic funding fee of 2.15 percent must be paid to VA by all but certain exempt veterans. A down payment of 5 percent or more will reduce the fee to 1.5 percent and a 10 percent down payment will reduce it to 1.25 percent.

A funding fee of 2.40 percent must be paid by all eligible Reserve/National Guard individuals. A down payment of 5 percent or more will reduce the fee to 1.75 percent and a 10 percent down payment will reduce it to 1.50 percent.

Cash-out refinancing loans for regular military requires a 2.15% fee for first time users and a 3.3% fee for subsequent users. For Reserves / National Guard, the requirement is a 2.4% fee for first time users and a 3.3% fee for subsequent users. On interest rate reduction loans, the VA funding fee is .50% and it is 1.0% on Manufactured Home Loans.

Veterans who are using entitlement for a second or subsequent time who do not make a down payment of at least 5 percent are charged a funding fee of 3.30 percent.

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

In addition, reasonable closing costs may be charged by the mortgage company. 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 companies and also throughout the nation because of differing local laws and customs.

VA loan costs may include 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.

The following persons are exempt from paying the funding fee:

Veterans receiving VA compensation for service-connected disabilities.

Veterans who would be entitled to receive compensation for service-connected disabilities if they did not receive retirement pay.

Surviving spouses of veterans who died in service or from service-connected disabilities (whether or not such surviving spouses are veterans with their own entitlement and whether or not they are using their own entitlement on the loan).

## **OBTAINING A VA LOAN**

### **VA Appraisal - Certificate of Reasonable Value**

The CRV (certificate of reasonable value) is based on an appraiser's estimate of the value of the property to be purchased. Because the loan amount may not exceed the CRV, the first step in getting a VA loan is usually to request an appraisal. Anyone (buyer, seller, real estate personnel or lender) can request a VA appraisal by completing VA Form 26-1805, Request for Determination of Reasonable Value. After completing the form, it can either be mailed to the Loan Guaranty Division at the nearest VA office for processing or an appraisal can be requested by telephoning the Loan Guaranty Division for assignment of an appraiser. The local VA office may be contacted for information concerning its assignment procedures. 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) use the same appraisal forms. Also, if the property was recently appraised under

the HUD procedure, under certain limited circumstances, the HUD conditional commitment can be converted to a VA CRV. The local VA office can explain how this is done.

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. You should carefully inspect the property or 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 your 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 10 percent of VA loan applications have to be submitted to a VA office for approval before closing.

## **RESTORATION OF VA LOAN 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. An additional \$14,750, up to a maximum entitlement of \$50,750 is available for loans above \$144,000 to purchase or construct a home.

Most mortgage companies require that a combination of the guaranty entitlement and any cash down payment 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 mortgage company's minimum guaranty requirement for a no down payment loan to buy a property valued at and selling for \$94,000. The veteran could also combine a down payment with the remaining entitlement for a larger loan amount.

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.

Remaining entitlement and restoration of entitlement can be requested through the nearest VA office by completing VA Form 26-1880. 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.



## **BUYING A HOME WITH A VA LOAN**

Buying a home is one of the most important and largest financial transactions most individuals will make in their life time. The purpose of today's program is to prepare you the veteran to make an intelligent and informed decision when you purchase and finance a home for you and your family.

Here are the four primary steps in the home buying process.

### **Steps to Buying and Financing a Home**

- Selection of a Real Estate Professional
- Deciding what area you want to live
- Selecting you VA lender
- Selecting your "dream home"

The first step is to select a Real Estate professional who will help you find the perfect home that fits your individual needs and budget. The Real Estate professional that you choose should be familiar with the area where you want to live. It is important that you feel comfortable with your agent and you are able to communicate what type of house you want to purchase. For example, do you want a one story home versus a two story, how many bedrooms do you need, how many bathrooms are required, size of garage, and most important what price range house can you afford. A Real Estate professional that understands your individual needs can make the home buying process as painless as possible.

The second step is making the decision on where you want to live. By this I mean, what part of town do you want your future home to be located? Have you considered schools in the area, the commute time to you or your spouse's work site? You may decide that you want to purchase acreage in a rural area, that's fine, but you should convey your desires to your agent. The better informed you agent is of your needs, the better job your agent can doing in locating the house that meets your particular requirements.

The third step in the process is selecting the VA lender who will finance your home purchase. Most all lenders in the market place make VA home loans. Your Real Estate professional may have a recommendation, you can check the telephone yellow pages, go on line on the internet, or check with the financial institution where you currently have your checking and savings accounts. I recommend selecting your lender prior to beginning to hunt for a house; that way you can get a pre-approval from your lender and will know what loan amount that you are approved for and the price range of the house that you can afford. A little later in this manual, I will go over some important considerations you should make when selecting your VA lender.

The final step in the process is to actually select the “dream home” that fits your family needs and budget. I can not emphasize enough the importance of purchasing a home that you can afford. The worst nightmare of being a new homeowner is to discover that the new house payment exceeds what you can comfortably pay and still provide the basic necessities to support you and your family.

I talked earlier about selecting a VA lender to finance your home purchase. Keep in mind that the interest rate on your loan and closing costs charged to obtain the loan can vary from lender to lender. Both the interest rate and the amount of closing costs you pay are negotiable between you and your lender. Obtaining the best interest rate and lowest closing costs in the current marketplace, can save you money needed to close the loan, plus, save you thousands of dollars in interest over the life of the loan.

### **Typical Closing Costs**

- origination fee
- credit report
- appraisal
- title costs
- recording costs
- homeowners insurance
- escrow deposits for insurance and taxes
- VA Funding Fee

Let us now talk about some of the various closing costs that you might expect to pay in obtaining your VA home loan. Most lenders will charge an origination fee. This is usually quoted by the lender as a point or percentage of the loan amount. On VA loans the lender is limited to charging you only a one percent origination fee. As an example, on a \$100,000 loan, a 1% origination fee would be \$1,000.

All VA home loans require a credit report on the borrowers to determine how they have paid their obligations in the past. Having a good credit history is very important in obtaining a VA home loan. Good credit is a prime indicator to the lender that you will make your house payments on time and could influence whether you get the best interest rate available. An appraisal on the property you are purchasing is required on all VA purchase loans. The property appraisal of value is important since it protects not only the lender by assuring they have sufficient collateral for the loan, but you the veteran purchaser by validating that the property is worth your agreed purchase price.

Another typical closing cost is for title costs. These costs could be for abstract work, attorney's opinions, and for title insurance. The purpose of these items is to insure that when you purchase the property that you will have a clear and marketable title after the closing of the sale. There are also costs for recording the necessary documents at the county court house to make the property transfer legal and a matter of public record.

VA and your lender will require that you purchase a homeowner's insurance policy so your home will be insured against loss from storm damage, fire, hail and other natural perils. The homeowners insurance policy protects you the veteran, and will pay to repair/replace damages to your home, less what ever deductible that you choose on your insurance policy. Just keep in mind that the lower the deductible that you choose, the higher the annual premium.

Your lender will also collect at closing two months escrow impounds for taxes and insurance. You will also pay 1/12 of the amount of your annual homeowner's insurance premium and 1/12 of your annual property taxes in your monthly house payment. Your lender will then pay your taxes and insurance each year when they become due and payable. The reason for the two months escrow impounds collected at closing is to insure that you have sufficient monies in your escrow account to pay these items when they become due.

At closing you will also be charged a VA Funding Fee. This fee is collected by the lender and goes to VA to defray the costs of the VA guaranteed home loan program. One of the advantages of the VA home loan is that the funding fee can be financed into the loan. If you are a disabled veteran, receiving service connected VA compensation, you are exempt from paying the funding fee.

I want to now go over some other items that may not be required, but you should consider when you buy a home.

### **Additional Safeguards**

- property survey
- homebuyer's inspection

- homebuyer's protection warranty

Additional safeguards you may want to consider is a property survey, it may be required by the title company, but not always. The value in a property survey is that you have an indicator of where the property lines are located and the location of any easements that affects your property.

I highly recommend that you hire an independent homebuyer inspection service to make an inspection of the property prior to closing the sale. The appraisal that I mention earlier only determines the value of the property. Typical home inspectors do a thorough inspection of the house which includes all mechanical systems such as heating and cooling. They usually check plumbing, electrical, roof, hot water heater, and appliances to determine if they are in proper working order. While the appraisal is primarily concerned with value, the home inspection is concerned with the condition of the house and its various operating systems. The cost of the home inspection is usually money well spent.

While a home inspection determines that everything is working at that time, there are no guarantees that something won't break six months down the road. That is why a homebuyer's warranty may be a good idea to purchase. The warranties are generally for a one year period and cover most items such as A/C, furnace, water heater, appliances, etc. Most carry a deductible of \$35-\$50 dollars which the homeowner pays and then the insurance covers the balance of the cost of the repairs. It is very common that the seller's provide and pay for this warranty as a marketing tool. But, who pays for this warranty is negotiable item between you and your seller.

Now that you have purchased a home, keep in mind that you have a valuable asset that can increase in value over time, if properly maintained. By promptly doing minor repairs, keeping the house painted, landscaping and yard in good condition, you will have a home that will last for many years, maintain or increase its value, and be marketable if you desire to sell in the future.

You have earned your VA home loan benefit by serving your country, so when you decide to purchase a home for you and your family, finance it with a VA home loan.

<b>Department of Veterans Affairs</b>		<b>TO</b>	<b>Department of Veterans Affairs Attn: Loan Guaranty Division</b>				
<b>REQUEST FOR A CERTIFICATE OF ELIGIBILITY FOR VA HOME LOAN BENEFITS</b>							
<b>NOTE: Please read information on reverse before completing this form. If additional space is required, attach a separate sheet.</b>							
1. FIRST-MIDDLE-LAST NAME OF VETERAN		2. DATE OF BIRTH	3. VETERAN'S DAYTIME TELEPHONE NO.				
4. ADDRESS OF VETERAN (No., street or rural route, city or P.O. State and ZIP Code)		5. MAIL CERTIFICATE OF ELIGIBILITY TO: (Complete Only if the Certificate is to be mailed to an address different from the one listed in Item 4)					
<b>6. MILITARY SERVICE DATA (ATTACH PROOF OF SERVICE - SEE PARAGRAPH "E" ON REVERSE)</b>							
A. ITEM	B. PERIODS OF ACTIVE SERVICE		C. NAME (Show your name exactly as it appears on your separation papers or Statement of Service)	D. SOCIAL SECURITY NUMBER	E. SERVICE NUMBER	F. BRANCH OF SERVICE	
	DATE FROM	DATE TO					
1.							
2.							
3.							
4.							
7A. WERE YOU DISCHARGED RETIRED OR SEPARATED FROM SERVICE BECAUSE OF DISABILITY OR DO YOU NOW HAVE ANY SERVICE-CONNECTED DISABILITIES?				7B. VA CLAIM FILE NUMBER			
<input type="checkbox"/> YES <input type="checkbox"/> No (If "Yes," complete Item 7B)				C.			
<b>8. PREVIOUS VA LOANS (Must answer N/A if no previous VA home loan. DO NOT LEAVE BLANK)</b>							
A. ITEM	B. TYPE (Home, Refinance, Manufactured Home, or Direct)	C. ADDRESS OF PROPERTY		D. DATE OF LOAN	E. DO YOU STILL OWN THE PROPERTY? (YES/NO)	F. DATE PROPERTY WAS SOLD (Submit a copy of HUD-1, Settlement Statement, if available)	G. VA LOAN NUMBER (If known)
1.							
2.							
3.							
4.							
5.							
6.							
I CERTIFY THAT the statements herein are true to the best of my knowledge and belief.							
9. SIGNATURE OF VETERAN (Do NOT print)				10. DATE SIGNED			
FEDERAL STATUTES PROVIDE SEVERE PENALTIES FOR FRAUD, INTENTIONAL MISREPRESENTATION, CRIMINAL CONNIVANCE OR CONSPIRACY PURPOSED TO INFLUENCE THE ISSUANCE OF ANY GUARANTY OR INSURANCE BY THE SECRETARY OF VETERANS AFFAIRS.							
FOR VA USE ONLY							
11 A. DATE CERTIFICATE ISSUED			11 B. SIGNATURE OF VA AGENT				

## INSTRUCTIONS FOR VA FORM 26-1880

**PRIVACY ACT INFORMATION:** No Certificate of Eligibility may be issued unless VA receives sufficient information to determine that you are eligible (38 U.S.C 3702). You are not required to furnish the information, including the Social Security Number, but are urged to do so, since it is vital to proper actions by VA in your case. Specifically, your Social Security Number is requested under authority of 38 U.S.C. 3702 and is requested only if the service department used your Social Security Number as a service number. Failure to provide a completed application will deprive VA of information needed in reaching decisions which could affect you. Responses may be disclosed outside VA only if the disclosure is authorized under the Privacy Act, including the routine uses identified in the VA system of records, 55VA26, Loan Guaranty Home, Condominium and Manufactured Home Loan Applicant Records, Specially Adapted Housing Applicant Records, and Vendee Loan Applicant Records - VA, published in the Federal Register.

**RESPONDENT BURDEN:** VA may not conduct or sponsor, and respondent is not required to respond to this collection of information unless it displays a valid OMB Control Number. Public reporting burden for this collection of information is estimated to average 15 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. If you have comments regarding this burden estimate or any other aspect of this collection of information, call 1-800-827-1000 for mailing information on where to send your comments.

**A. Use this form to request VA to determine your eligibility for Loan Guaranty benefits, and the amount of entitlement available.**

### **B. Military Service Requirements for VA Loan Eligibility:**

**1. Wartime Service.** If you served anytime during World War II (September 16, 1940 to July 25, 1947), Korean Conflict (June 27, 1950 to January 31, 1955), or Vietnam Era (August 5, 1964 to May 7, 1975) you must have served at least 90 days on active duty and have been discharged or released under other than dishonorable conditions. If you served less than 90 days, you may be eligible if discharged because of service-connected disability.

**2. Peacetime Service.** If your service fell entirely within one of the following periods: July 26, 1947 to June 26, 1950, or February 1, 1955 to August 4, 1964, you must have served at least 181 days of continuous active duty and have been discharged or released under conditions other than dishonorable. If you entered service after May 7, 1975 but prior to September 8, 1980 (enlisted) or October 17, 1981 (officer) and completed your service before August 2, 1990, 181 days service is also required. If you served less than 181 days, you may be eligible if discharged for a service connected disability.

**3. Service after September 7, 1980 (enlisted) or October 16, 1981 (officer) and prior to August 2, 1990.** If you were separated from service which began after these dates, you must have: (a) Completed 24 months of continuous active duty or the full period for which you were called or ordered to active duty (at least 181 days), and been discharged or released under conditions other than dishonorable; or (b) Completed at least 181 days of active duty and been discharged under the specific authority of 10 U.S.C. 1173 (hardship discharge), or 10 U.S.C. 1171 (early out discharge), or have been determined to have a compensable service-connected disability; or (c) Been discharged with less than 181 days of service for a service-connected disability. Individuals may also be eligible if they were released from active duty due to an involuntary reduction in force, certain medical conditions, or, in some instances, for the convenience of the Government.

**4. Gulf War.** If you served on active duty during the Gulf War (August 2, 1990 to a date yet to be determined), you must have: (a) Completed 24 months of continuous active duty or the full period for which you were called or ordered to active duty (at least 90 days), and been discharged or released under conditions other than dishonorable; or (b) Completed at least 90 days of active duty, and been discharged under the specific authority of 10 U.S.C. 1173 (hardship discharge), or 10 U.S.C. 1171 (early out discharge), or have been determined to have a compensable service-connected disability; or (c) Been discharged with less than 90 days of service for a service-connected disability. Individuals may also be eligible if they were released from active duty due to an involuntary reduction in force, certain medical conditions, or, in some instances, for the convenience of the Government.

**5. Active Duty Service Personnel.** If you are now on active duty, you are eligible after having served on continuous active duty for at least 181 days (90 days during the Persian Gulf War) unless discharged or separated from a previous qualifying period of active duty service.

**6. Selected Reserve Requirements for VA Loan Eligibility.** If you are not otherwise eligible and you have completed a total of 6 years in the Selected Reserves or National Guard (member of an active unit, attended required weekend drills and 2-week active duty training) and (a) Were discharged with an honorable discharge; or (b) Were placed on the retired list or (c) 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 (d) Continue to serve in the Selected Reserve. Individuals who completed less than 6 years may be eligible if discharged for a service connected disability. Eligibility for Selected Reservists expires October 28, 1999.

**C. Unremarried surviving spouses of eligible veterans seeking determination of basic eligibility for VA Loan Guaranty benefits are NOT required to complete this form, but are required to complete VA Form 26-1817. Request for Determination of Loan Guaranty Eligibility-Unremarried Surviving Spouse.**

**D. This request (VA Form 26-1880) should be sent to the VA office serving the area in which you reside. If you have any questions about the form or the address of the VA office nearest to you call 1-800-827-1000.**

### **E. Proof of Military Service**

**1. "Regular" Veterans.** Attach to this request your most recent discharge or separation papers from active military duty since September 16, 1940, which show active duty dates and type of discharge. If you were separated after January 1, 1950, DD Form 214 must be submitted. If you were separated after October 1, 1979, and you received DD Form 214, Certificate of Release or Discharge From Active Duty, 1 July edition, VA must be furnished Copy 4 of the form. You may submit either original papers or legible copies. In addition, if you are now on active duty submit a statement of service signed by, or by direction of, the adjutant, personnel officer, or commander of your unit or higher headquarters showing date of entry on your current active duty period and the duration of any time lost. Any Veterans Benefits Counselor in the nearest Department of Veterans Affairs office or center will assist you in securing necessary proof of military service.

**2. Selected Reserves/National Guard.** If you are a discharged member of the Army or Air Force National Guard you may submit a NGB Form 22, Report of Separation and Record of Service, or NGB Form 23, Retirement Points Accounting, or its equivalent (this is similar to a retirement points summary). If you are a discharged member of the Selected Reserve you may submit a copy of your latest annual point statement and evidence of honorable service. You may submit either your original papers or legible copies. Since there is no single form used by the Reserves or National Guard similar to the DD214, it is your responsibility to furnish adequate documentation of at least 6 years of honorable service. In addition, if you are currently serving in the Selected Reserve you must submit a statement 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 unit.