

How to Take  
Advantage of  
the Benefits  
Earned By  
Your Service



Veterans United  
*Home Loans*

# VA Loan Guide



# Introduction

The VA Loan Guaranty program was created in 1944 to help service members and their families achieve the dream of homeownership.

Almost 70 years later, more than 18 million veterans and active duty personnel have capitalized on the home loan benefits earned by their service. Today, the financial flexibility and purchasing power behind the VA loan is more important than ever.

Mortgage lenders have ratcheted up requirements in the wake of the subprime mortgage meltdown. For some borrowers, that means securing a home loan is becoming more difficult than ever before.

But the VA loan program has helped ensure service members are in a prime position to succeed. VA loans feature flexible requirements and significant financial benefits, chiefly the ability to purchase a home with no money down. To the average service member, VA loans represent the clearest and most cost-effective path to homeownership.

They come with an array of benefits that no other lending program can match. They are, in many ways, a lifeline for scores of service members who might otherwise struggle to become a homeowner.

This guide will provide you with an overview of the VA loan program. For more detailed information or to get prequalified, contact a VA loan specialist at Veterans United Home Loans.

# Acceptable and Non-Acceptable Uses of VA Loans

The VA loan program is rooted in homeownership.

The most common use for a VA loan is to purchase, build or repair a home or to refinance an existing mortgage. Qualified borrowers can use a VA loan to buy a home and improve it at the same time. Energy efficient upgrades are eligible for VA loan financing, as is buying a manufactured home or lot.

The VA generally requires borrowers to occupy the homes they purchase as a primary residence.

There are two major refinance programs: the Interest Rate Reduction Refinance Loan, better known as an IRRRL or a VA Streamline; and the Cash-Out Refinance. With a VA Streamline, qualified homeowners can lower their monthly mortgage costs. A Cash-Out Refinance allows homeowners to obtain a lower interest rate while extracting cash from their home's equity.

Veterans cannot purchase investment properties, land or businesses without a residential component.

VA loans are not business loans. The Small Business Administration (SBA) has loans available to veterans wishing to start a business. Borrowers can purchase a farm residence to be owned and occupied by the veteran, but the property cannot be a working farm or an income-producing property.

# Major VA Loan Benefits

These flexible, low-cost loans come with an array of significant benefits.

Over and over, veterans who utilize the program point to one perk in particular: the no-down payment mortgage. Qualified borrowers can purchase a home worth up to \$417,000 (and more in high-cost parts of the country) without putting down a single dollar. That's an incredible benefit that opens the doors of homeownership to people without huge cash reserves.

"Most people don't realize, especially younger people and first time-homebuyers, what a benefit it is," said Scott Dow, of Charleston, S.C., a former Coast Guard officer and Reservist who has purchased two homes using his VA benefit. "I would not have been able to purchase a home without a VA loan."

Ninety percent of the VA loans guaranteed in 2010 came with no down payment.

There's also no private mortgage insurance on a VA loan. This is a monthly cost for conventional buyers who aren't able to put down at least 20 percent of the purchase price. Even FHA loans come with forms of mortgage insurance that borrowers pay both up front and monthly.

## Other big-time benefits of VA loans include:

- Sellers can pay up to 6 percent in closing costs and concessions
- Borrowers are capped at how much they can pay in closing costs
- No pre-payment penalties
- Higher allowable debt-to-income ratios than other loan products
- Competitive rates even for low qualifying credit scores

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**The credit and underwriting requirements for VA loans are more flexible than for other loan products. About eight in 10 VA borrowers could not have qualified for conventional home financing.**

## VA loan volume by year

Fiscal Year	2006	2007	2008	2009	2010
# Loans	142,708	133,313	179,670	325,690	314,011

# VA Loan Eligibility

One simple government form has marked the beginning of the journey to home ownership for millions of prospective military homebuyers. A Certificate of Eligibility (COE), available through the VA and VA-approved lenders, confirms whether a prospective borrower is eligible for a VA loan.

Veterans may be eligible if they served fewer than 90 days during wartime or 181 days during peacetime but received a discharge because of a service-related injury. But there are circumstances where a military member can be eligible for a VA loan after just one day of service.

That's why it's important to obtain your Certificate of Eligibility through the VA or have a lender do it for you. This document is the only way to be sure what entitlement, if any, you have because of your service.

**It is important to note that completing and submitting a COE does not secure a loan for the applicant. He or she must meet the eligibility requirements, which are based mostly on military service and type of discharge. Scores of veterans and active duty personnel are eligible for a VA loan.**

- **Military members who served on active duty for 90 days or 181 days during wartime or peacetime**
- **National Guard and Reservists who served for at least six years**
- **Some spouses of service members who died in the line of duty or due to a service-related injury**

# VA Loan Financial Requirements

The credit and underwriting standards are typically more flexible and forgiving for VA loans compared to the other major lending products available.

Prospective borrowers have to be considered a "satisfactory credit risk" in order to participate in the program. VA lenders tend to have more black-and-white criteria and, in the current market, are generally looking for a credit score of at least 620.

To be financially eligible, a VA loan applicant must make enough money to cover mortgage payments, family support, and other bills and expenses. Lenders will crunch all of those numbers and compute a debt-to-income ratio. The VA has a DTI ratio requirement of 41 percent, although it's possible for veterans to secure financing with a ratio above that benchmark.

VA borrowers also have to meet a unique standard for residual income, which is essentially how much money the household has left over every month after those major expenses. The residual income requirements vary by geography and by family size. Prospective borrowers with a DTI ratio greater than 41 percent have to meet a higher standard for residual income. The VA and VA-approved lenders also require borrowers to have a stable and reliable stream of income that's likely to continue. Lenders generally look for two years of stable employment, but the requirements and acceptable employment conditions can vary greatly depending on the lender and the borrower.

# VA Refinance

The VA Loan program has two major refinance options: the VA Streamline and the Cash-Out Refinance.

VA Streamlines were created to help borrowers take advantage of lower rates and cut their monthly mortgage payments. To use a VA Streamline, the homeowner must have an existing VA loan. The VA does not require a credit check or an appraisal, but lenders may require both. There is a 0.5 percent funding fee on a homeowner's first Streamline refinance. Unless the borrower is refinancing an Adjustable Rate Mortgage, the Streamline has to lower the interest rate.

A Cash-Out Refinance allows qualified homeowners to obtain a lower rate and extract cash from their home for any purpose deemed acceptable by the lender. Homeowners often use these loans to pay down debt, make major home improvements and cover other key expenses. The VA requires full credit and underwriting, similar to a purchase loan.

The VA Funding Fee on a Cash-Out Refinance is 2.15 percent for regular military and 2.4 percent for Reserves and Guard. Homeowners with conventional or FHA loans can refinance into a VA loan using the Cash-Out option.

Most lenders cap what a homeowner can refinance at 90 percent of their home's appraised value. Veterans United Home Loans is able to secure 100 percent refinancing for qualified homeowners.

Feature	Streamline	Cash-out Refinancing
Purpose	To refinance an existing VA loan at a lower interest rate	To lower your rate and take out cash; to refinance from a conventional loan to a VA loan
Interest Rate	Rate must be lower than on existing VA loan (unless existing loan is an ARM)	Any negotiated rate
Monthly Payment Amount	Payment must be lower than that on an existing VA loan (unless the ARM is being refinanced, a term is shortened, or energy efficiency improvements are being included)	No requirement
Maximum Loan	Existing VA loan balance, plus allowable charges and other costs	100 percent of the appraised value plus allowable charges and other costs
Cash To Borrower	Not permitted	Borrower can receive cash for any purposes acceptable to the lender
Occupancy	Veteran or spouse of an active duty service member must certify to prior occupancy	Veteran or spouse of an active duty service member must certify as to intent to occupy
Appraisal	No appraisal is required	Appraisal is required
Credit Underwriting	No underwriting is required except in certain cases	Full credit information and underwriting are always required

# VA Funding Fee

The VA Funding Fee is a mandatory charge applied to every purchase or refinance loan. The amount varies depending on the borrower's service history and the number of times they've utilized their home loan entitlement.

Here's a breakdown of the VA Funding Fee:

<b>VA Funding Fee Rates for Purchases (as a percent of the total loan amount)</b>			
	Down Payment	1st Time Use	Subsequent Use
<b>Regular Military</b>	none	2.15%	3.30%
	5%-10%	1.50%	1.50%
	10% or more	1.25%	1.25%
<b>Reserves or National Guard</b>	none	2.40%	3.30%
	5%-10%	1.75%	1.75%
	10% or more	1.50%	1.50%

## VA Loan Limits

There's no maximum loan amount on a VA loan. Instead, the VA has loan limits in place that govern how much a borrower can secure without a down payment.

In most of the country, qualified borrowers can obtain a loan worth up to \$417,000 without a down payment. But in costlier parts of the nation, VA borrowers can get loan of \$625,000 or more without putting down any money.

# VA vs. Conventional Loans

VA loans represent the most powerful and cost-effective path to homeownership for the vast majority of military borrowers.

VA loans come with flexible requirements, no down payment, no private mortgage insurance and great interest rates. Prospective borrowers who barely meet the 620 credit score benchmark will secure better rates on a VA loan than they will on a conventional.

Conventional loans require a down payment of at least 20 percent in order to avoid paying private mortgage insurance (PMI).

Veterans and active duty personnel with significant cash reserves and excellent credit can consider a conventional loan to avoid paying the VA Funding Fee, a cost that isn't part of the conventional realm. But most prospective military homeowners aren't in that kind of financial position.

The reality is that nearly seven decades after its creation the VA loan program is almost always the most dynamic lending option available for those who have served our country.

Most borrowers elect to roll the VA Funding Fee into their loan. For example, the 2.5 percent funding fee on a \$200,000 mortgage comes out to \$5,000. On a fixed-rate loan at 30 years and 6 percent, rolling in the funding fee adds an additional \$30 per month.

## VA Loans By the Numbers (2011)

357,594

VA home loans guaranteed

\$74.9 billion

Total loan amount

90,331

Number of loans to first-time home buyers

\$195,129

Average loan amount for first-time home buyer

186,588

Number of purchase loans

164,647

Number of loans that didn't require a down payment

88

Percent of loans that didn't require a down payment

135,712

Interest Rate Reduction Refinance Loans guaranteed

35,294

Cash-out and other refinance loans

\$67,212

Median borrower income on a purchase loan

99,488

Number of loans guaranteed to the 26-35 age range, the single largest block

Source: VA Annual Benefits Report, Fiscal Year 2011