



VA Home Loans 101

An Easy Reference Guide

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Congratulations on Starting Your Journey to Home Ownership

This guide offers a quick look at vital information you need in the process of buying a home using your VA benefits. You'll learn about:

- The difference between a VA Guaranty and a VA home loan
- Uses for a VA loan
- How to apply for a VA home loan
- "No Money Down" and the "VALoans.com" High Cost County Loan Limit options
- Required paperwork (*military service records, employment and residence histories, plus other important documentation*)
- The VA loan funding fee
- Credit ratings and your debt-to-income ratio
- Closing costs
- Credit issues

This guide is intended to give you quick answers to basic questions all Veteran home buyers have about getting started. For more detailed information, contact your loan officer at VALoans.com if you have additional questions.

The Difference between VA Loans and the VA Loan Guaranty

The Veterans Administration does not lend money or issue your VA loan. Instead, the VA offers a guaranty on your home loan equal to 25% of the approved loan up to the current year's maximum. (In 2011 the maximum guaranty amount is \$104,250 for a maximum loan of \$417,000). Some VA County limits go higher than this amount and can be found on the VALoans.com website.

The VA Guaranty is protection for the lender in the event of default or foreclosure. The VA guaranty makes your application for a home loan more attractive to the lender and allows you to purchase a home for no money down in most cases. The lender works together with the VA; when the paperwork is filled out and the loan is approved, the mortgage company is the agency that lends you the money and collects your payments.

VALoans.com Cuts Red Tape in Your Application Process

Before you fill out a single form, you should know about a select group of lenders certified by the VA with "Automatic Approval status". These lenders must meet a tough set of government standards and quality control regulations. VALoans.com is proud to do business with Automatic Approval status, which means your VA home loan will be underwritten in house with the lender rather than being required to wait for approval from the VA.

Your road to a new home is much shorter than you think!

Uses for VA Home Loans

There are many uses for a VA home loan, including:

- Buying a home, condominium, or townhouse.
- Building a new home.
- Buying and improving a home at the same time.
- Installing energy-efficient improvements to a home.
- Refinancing an existing VA loan to get a better interest rate.

Please note that we do not finance more than 10 acres of land with the home. In some cases you can also use a VA loan to buy a manufactured home, but several restrictions may apply depending on the type of loan you want. At this time, we are not financing manufactured homes.

How to Apply For a VA Home Loan

You need a good credit rating to qualify for a VA home loan. While the VA does not require minimum credit scores, all secondary market investors have placed minimum credit scores on VA loans at 620. Your first step in the VA loan process should be requesting a copy of your credit report for review. You should know your credit score, the reasons for your score, and how your credit report will affect your loan application.

VA Loan experts recommend obtaining, reviewing and examining your credit report. You can obtain a free credit report by going to our site at www.valoans.com. This can help you learn how to maximize your credit score before filling out loan paperwork. Be sure to go over and calculate your debt-to-income ratio, which is crucial in the loan approval process. Once you've examined your credit and taken any recommended actions, the next step is to pre-qualify for a specific loan amount by filling out the application form on the VALoans.com website.

The screenshot displays the VALoans.com website. At the top, there is a navigation bar with the VALOANS logo and a 'VA LOAN RATES' section showing national averages for new home loans as of September 11, 2013. Below this, a horizontal menu lists various services: VA LOAN LIMITS, REFINANCE LOANS, PURCHASE LOANS, VA JUMBO LOANS, MORTGAGE CALCULATORS, and VA LOAN REQUIREMENTS. The main content area features a 'GET A VA HOME LOAN' form, which is circled in red. This form includes fields for 'PROPERTY LOCATION' and 'LOAN PURPOSE', and a 'START NOW' button. Other visible elements include a 'FREE CREDIT SCORE' section, a 'VA Refinance Loans' section with a sub-header 'Lower Your Payments or Tap into Your Equity', and a 'VA Loan Guidelines' section. A disclaimer at the bottom right states: 'This is a private website that is not affiliated with the U.S. government, U.S. Armed Forces, or Department of Veteran Affairs. U.S. government agencies have not reviewed this information. This site is not connected with any government agency.'

Throughout the website on the right side of the screen, you will see a section labeled “Get Started with a VA Home Loan.” Select your state from the “Property Location” dropdown. Select VA Purchase from the “Loan Purpose” dropdown. Then, click the “Start Now” button to be taken to the full loan application.

If you are applying with a co-borrower you’ll need to include some information on the co-borrower’s finances, including monthly payment amounts on auto loans, credit cards, student loans, and other debts. The application form also requests information about late payments within the last 12 months.

After your information has been submitted, it will be reviewed. Upon approval, you will receive notification on the amount, interest rate, and length of the conditional pre-qualified mortgage. You’ll be instructed to fill out a list of forms including a Uniform Residential Loan Application and a Borrower’s Certification.

What is a Rate Lock?

Your conditional pre-qualified mortgage terms are not firm until a “rate lock” is put in place. A rate lock is enacted once all required paperwork has been submitted.

VA Loan Limits

The VA loan maximum limit is \$417,000 for a no-money-down loan on a single-family home, but additional amounts are available to qualified borrowers. VALoans.com offers VA High Cost County loan products permitting loans up to \$1,000,000.

High Cost County Limit rules:

- A 25% down payment is required for any amount over your county limit.
- You are required to pay the funding fee up front.
- Your credit score must be 640+ if the loan amount is above \$650,000 and sufficient debt-to-income ratio to determine what amount you are approved to borrow.
- Other restrictions may apply.

Once you have a pre-qualified amount, it’s time to start searching for a home. Once you’ve located the property you want to buy, you’ll begin the loan process by filling out two forms:

1. The Uniform Residential Loan Application
2. Borrower's Certification

You’ll also have a checklist of documents and paperwork which must be filled out and/or included. You are required to provide a two year work and residence history, including the names and contact information for your landlords.

If you have moved several times in the last two years because of military assignments or relocations, this can be a time-consuming process. It's good to get a head start on gathering the information.

Documentation and Paperwork Checklist:

The following items must be supplied in order for your loan to be processed in a timely manner:

1. Uniform Residential Loan Application (*as mentioned above*).
2. Borrower's Certification and Authorization (*as mentioned above*).
3. Pay stubs for last 30 days or most recent Leave and Earning Statement.
4. W-2s for the last two years for all borrowers and all employers.
5. Original or online bank statements for the last two months.
6. Purchase contract (if executed).
7. Deposit check for \$400, electronic payment can be arranged, for the VA appraiser.
8. A Certificate of Eligibility or completed VA 26-1880 (Determination of Eligibility) is required, but VALoans.com uses the VA Automated Certificate of Eligibility system.
9. Discharged or retired veterans need to supply a copy of DD214. Those still serving should furnish proof of current service with a current ID card and current re-enlistment paperwork.
10. Disabled veterans must complete a VA 26-8937 form and attach a copy of the most recent VA disability award letter.
11. If you pay or receive child support, supply divorce decree and proof of timely payments.

Do not send original paperwork unless specifically requested. Some forms such as the DD214 take up to two months or longer to get official replacement copies delivered. If you are missing an original copy of your DD214 discharge paperwork, you can request a form be sent to you from VALoans.com.

The VA Loan Funding Fee Explained

The VA Loan Funding Fee is required by law and varies according to the type of loan, military service status, and other factors. A first-time VA home loan borrower with a no-money-down loan currently pays an amount equal to 2.15% of the loan. This amount is subject to change depending on legislation and other factors. Some borrowers are exempt from the funding fee:

- Veterans on VA compensation for service-related disabilities.
- Veterans who would receive compensation for service-related disabilities if they didn't draw retirement pay.
- Surviving spouses of military members who died in service or from service-related disabilities.

When necessary, the VA reserves the right to make final exemption determination on a case-by-case basis.

Closing Costs

Closing costs are not covered by your VA loan, but you can get similar results if you properly arrange your real estate contract. The loan amount will be whichever amount is less: the purchase price or the appraised value.

To add the amount of your closing costs to the VA Loan:

- Increase your offering price.
- Include a stipulation in the contract for the seller to pay closing costs and prepaid expenses equal to the amount you added to the offering price.
- As long as the home appraises for the increased price, the closing costs will then be covered by the VA mortgage.

Some other anticipated costs include:

- A loan origination fee, usually about 1% of the loan.
- Title search.
- Title insurance.
- State and/or local transfer taxes, where applicable.
- Survey costs.

How Your Credit Rating and Current Debts Affect Your Loan

When you apply for a VA home loan, the lender checks your credit rating with the three major credit agencies. These include Equifax, Trans Union, and Experian. One important reason you should meet with a credit counselor before starting the VA loan process is to clear up any credit report problems that may be lurking in your file before the mortgage company does the credit check. Look for:

- Clerical errors or erroneous information that should be contested.
- Bad credit information connected to identity theft.
- Old credit issues that should no longer appear on your report.
- Gaps or missing information that affects your credit score.

Higher standards for credit ratings may apply in some cases. If you need to borrow money using the High Cost County Limit rules for loans above \$650,000, a minimum credit score of 640 is required.

How Your Credit Cards Affect Your Loan

One important factor many people aren't aware of is how lines of credit affect your chances at getting a loan. Let's use John Smith as our example. John has four credit cards with a \$5,000 credit limit on each card. John carries a zero balance on three of the four cards, and carries a monthly balance of \$800 on the fourth card. He pays his bills on time and is a good credit risk.

There's just one problem. John has a potential debt of \$19,200. He could max out his credit cards at any time for a total debt of \$20,000. This potential can affect his credit-worthiness. A good financial advisor will tell you to limit your potential debt as much as possible by getting rid of unused lines of credit, paying off cards and canceling them, keeping only the essentials.

Your Debt-to-Income Ratio

The debt-to-income ratio is quite simply the percentage of how much debt you carry compared to your income. Your debt-to-income can be as high as 41% and still allow you to get approved for a VA loan. Recently paid off debts will take time to reach your credit report.

If you are struggling to lower your debt-to-income ratio, try paying off excess debts as early as you can to accommodate the lag time between final payment and the update to your credit report. The more time that passes between your final payment and the credit check for your VA loan, the better.

Bankruptcy Issues

If you have declared bankruptcy, you may still be eligible for a VA home loan. There are many factors that can work in your favor.

- Chapter 7 bankruptcies more than two years old may not affect your current application.
- Post-bankruptcy credit that shows a history of good credit risk is very helpful.
- Circumstances beyond your control leading to a Chapter 7 bankruptcy are given a more favorable view.
- Chapter 13 bankruptcies require a full year of satisfactory payments and a letter from the Trustee or Bankruptcy Judge which states the new credit is approved.

Past Foreclosure

If you have foreclosure on your credit record, you will need to furnish a complete history of the foreclosure including the circumstances. Past foreclosure is not an automatic disqualification from getting a new VA home loan, but the same criteria mentioned above for Chapter 7 bankruptcy issues will be applied to your case.

Short Sales

If you have a short sale on your credit report, you may still be eligible for a VA home loan. There are many factors that can work in your favor.

- Short Sales more than two years old may not affect your current application.
- Post Short Sale credit that shows a history of good credit risk is very helpful.
- Circumstances beyond your control leading to a Short Sale are given a more favorable view.

Getting Approval of Your VA Home Loan

The final approval of your loan is based on five basic principles:

- You are an eligible veteran with an available VA home loan entitlement.
- The purpose of your loan is allowed by VA rules and those of the lender.
- You have sufficient credit.
- Your debt-to-income ratio does not exceed 41%.
- You intend to live in the property.

Once you have been approved for your loan, you have several options that can help you over the course of the mortgage. Did you know there is no penalty for early pay-off of a VA home loan? You can also extend the maturity date of a VA guaranteed loan to lower your monthly payments under certain conditions. You may also sell your property at any time as long as the buyer meets all requirements by the VA and the lender. You are not required to sell to another veteran.

Buying a home is a solid investment that grows in value over time. The process may seem intimidating in the early stages, but your loan officer is there to help guide you through the process. Don't hesitate to ask questions, and you can also get additional information on VA programs from your VALoans.com representative.

If you are ready to begin the process of applying for a VA home loan with a VALoans.com representative, visit VALoans.com and get started!

Military / Active Duty / Government Hotel & Car Discounts

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Blackout dates may apply. Discounts can not be used with other programs.