Section 13 – Part 3

SLIDE 21 - **VA Loan Guarantee Program (Cover Page)**

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VA-Guaranteed Loans

The Veterans Administration (Department of Veterans Affairs) offers *loan guarantees to qualified veterans*. The VA, like the FHA, does not lend money except in certain areas where other financing is not generally available.

Instead, the VA partially guarantees permanent long-term loans originated by VA-approved lenders on properties that meet VA standards. The VA's guarantee enables lenders to issue loans with higher loan-to-value ratios than would otherwise be possible.

The interest rate on a VA-guaranteed loan is usually lower than one on a conventional loan. The borrower does not pay any premium for the loan guarantee, but does pay a VA funding fee at closing.

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Borrower default – The VA reimburses the lender for losses up to the guaranteed amount if foreclosure sale proceeds fail to cover the loan balance.

Appraisal – The property must be appraised by a VA-approved appraiser. The VA issues a *Certificate of Reasonable Value* which creates a maximum value on which the VA-guaranteed portion of the loan will be based. The property must meet certain VA specifications.

Down payment requirement – The VA usually requires no down payment, although the lender may require one.

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Maximum loan amount – The VA does not limit the loan amount, but does limit the amount it will guarantee. These limits are:

> For loans under $144,000, the maximum guarantee is $36,000; for loans up to $417,000 - $625,000, depending on location, 25%.

A veteran must apply for a *Certificate of Eligibility* to find out how much the VA will guarantee in a particular situation.

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Maximum loan term – The maximum loan term for one- to four-family residences is 30 years. For loans secured by farms, the maximum loan term is 40 years.

Prepayment privilege – The loan may be paid off early without penalty.

Assumability – Loans originated before March 1, 1988, are freely assumable. Loans originated after that date are assumable with the buyer's approval and assumption agreement, but the original borrower remains liable for the debt unless the VA agrees to grant a release.

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Interest rate – Lender and borrower negotiate the interest rate for all VA-insured loans.

Points, fees and costs – The lender may charge discount points, origination fees of up to 1%, and other reasonable costs. These may be paid by seller or buyer, but may not be financed. The VA funding fee, however, may be included in the loan amount.

Other VA programs – In addition to insuring loans to veterans, the VA may insure loans for lenders who set up a special account with the VA. The VA may also actually lend money directly when an eligible veteran cannot find other mortgage money locally.

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VA borrowers must pay VA a “funding fee”, instead of paying insurance premiums.

Amount of funding fee is a percentage of loan amount.

Certain parties are exempt from funding fee requirement:

Veterans entitled to receive VA compensation for service-related disabilities

Veterans receiving retirement pay who are entitled to receive disability compensation

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Funding Fees

VA borrowers must pay VA a “funding fee”, instead of paying insurance premiums.

Amount of funding fee is a percentage of loan amount.

Certain parties are exempt from funding fee requirement:

Veterans who are rated by VA as eligible to receive compensation as a result of pre-discharge exam and rating.

Surviving spouses of veterans who died in service or from service-related disabilities.

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Substitution of Entitlement

A veteran’s entitlement is not automatically restored after assumption. It is only restored under certain conditions:

- Assumptor is eligible veteran with entitlement ≥ loan’s guaranty amount.
- Assumptor agrees to substitute entitlement for original borrower’s.
- Loan payments must be current.
- Assumptor must be creditworthy.

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VA Guaranty - Remaining Entitlement

Full entitlement cannot be restored if the VA loan is assumed by a non-veteran.

- Veteran may still have remaining entitlement for another loan.
- Remaining is entitlement determined by subtracting amount of entitlement used on original loan
  from amount of entitlement currently available.
  - Currently available entitlement – Guaranty on existing loan = Remaining entitlement
- Generally used when veteran has sold property for which original loan was obtained, since VA loans require
  owner occupancy.

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VA Loans Underwriting Guidelines

Income Ratio Analysis

- VA uses total obligations to income ratio to analyze income ratio of potential borrower.
- Ratio generally shouldn't exceed 41%.
- Installment debts with more than 10 payments left are considered recurring obligations.
- VA Income Ratio Analysis Example:

  Robin Young is eligible for a VA loan. She and her husband, Mike Appleton, have a combined income of $6,000 per month. Their monthly obligations, not including their housing expense, add up to $1,030.