

GENERAL INFORMATION REGARDING THE VETERANS AFFAIRS (VA) HOME LOAN

Intent: To educate agents, buyers, and sellers regarding VA home loans and to promote an understanding of the facts regarding VA loans. **Be an informed seller or buyer.**

Veterans Affairs Home Loan Facts:

1. Did you know that the processes and procedures to determine the value on a VA loan are the same as conventional, FHA, and all other appraisals?

Appraisers go through the same process and procedures no matter what loan type. However, VA appraisals go beyond conventional appraisals by incorporating a second function: ensuring that homes meet the VA's minimum property requirements (MPRs). These are just additional safety checks making sure the house is safe, sound, and sanitary.

2. Did you know a VA loan allows the borrower to protest the appraised value?

VA appraisers must notify the buyer, designated representative, or lender that the appraised value is below the contract purchase price. Tidewater gives VA approved appraisers a way to request additional information that might support the sales price. Once Tidewater is invoked, Lenders and REALTORS® have two working days to provide more information.

3. Did you know VA loans have a high contract to close ratio?

VA loans generally have a higher closing success rate than other loan products, according to data from Ellie Mae and the Department of Veterans Affairs. Pre-approved VA buyers are as strong a buyer as you can find, and the VA home loan is a powerful home buying tool.

4. Did you know sellers are NOT required to pay the non-allowable fees?

There are limits on the amount that lenders and service providers can charge Veterans when closing on their loan. To protect Veterans from excessive fees, there is flat 1% fee guideline intended to cover the lender's costs associated with the loan. Even though non-allowable fees are "not allowed" to be charged to the veteran, this does not mean they automatically get charged to the seller. Sometimes the lender will cover these costs.

5. Did you know San Antonio is trademarked Military City USA? One way that we help our veterans is by continually educating ourselves and understanding the facts associated with our veteran home buyers.

In 2020, San Antonio was home to over 150,000 veterans and 80,000 active-duty personnel, which has only increased. Unofficial data states that 11% of our population are veterans.

6. Did you know a VA government guaranteed loan is 100% loan to value?

The VA does 100% loan to value (LTV) and may go up to 100% plus the funding fee. This is made possible because the VA home loan is a government guaranteed loan. A veteran electing 100% financing is not an indication of the financial capability to repay the loan, but it is the veteran choosing to take full advantage of an earned benefit.

VA-GUARANTEED HOME LOANS FOR VETERANS: The main purpose of the VA home loan program is to help veterans finance the purchase of homes with favorable loan terms and at an interest rate which is usually lower than the rate charged on other types of mortgage loans. For VA housing loan purposes, the term "veteran" includes certain members of the selected reserve, active-duty service personnel and certain categories of spouses.

MINIMUM PROPERTY REQUIREMENTS: The VA has established minimum property requirements (MPRs) to protect the interests of veterans, lenders, servicers, and the VA. Properties must meet these requirements prior to guaranty of the loan by the VA. MPRs help ensure that the property is safe, structurally sound, and sanitary. The scope of MPRs also include issues related to the property's location and legal considerations.

THE TIDEWATER INITIATIVE/POLICY: The Tidewater Initiative is a request to gather more details about a property in the event the appraised value is less than the contract purchase price. The Tidewater process gives two working days for appraisers to request additional sale information prior to the appraisal being completed.

RECONSIDERATION OF VALUE: If it appears an appraiser factored dissimilar properties, miscalculated, or omitted any value-adding features or miscalculated the square footage there is an appeals process for an appraisal rebuttal called a reconsideration of value.

NON-ALLOWABLE FEES: Costs and fees that a VA buyer cannot pay include but may not be limited to attorney fees charged by the lender, real estate broker or agent commission fees, fees for appraisals requested by the lender or seller for a reconsideration of value, fees for appraisals requested by anyone other than the veteran or seller, application fees, prepayment penalty costs, rate lock fees and escrow fees by the lender or appraiser. Being non-allowable means the VA buyer cannot pay these fees, but it does not mean the home seller has to pay these costs. Any of the other parties to the loan, such as the lender, can cover these expenses.

LOAN TO VALUE: The loan-to-value (LTV) ratio is a financial term used by lenders to express the ratio of a loan to the value of a home purchased. LTV is the ratio of the first mortgage as a percentage of the total appraised value of the property. The VA guarantees loans up to 101% LTV (100% of the loan plus the up to 1% Funding Fee). Veterans are allowed to pay the difference between the appraisal value and the contract price. VA guaranteed financing allows the veteran up to 100% loan financing, equal to the full appraised value, but that does not preclude them from paying any agreed upon difference out of pocket.

FUNDING FEE: Veterans must also pay a VA funding fee at the time of loan closing. The fee may be included in the loan and paid from loan proceeds. The fee is not required from certain veterans in receipt of service connected compensation, or in receipt of military retirement in lieu of service connected compensation, and surviving spouses. Other veterans who are exempt from paying the fee, including veterans who: would receive disability compensation if they didn't receive retirement pay, rated as eligible to receive compensation based on a pre-discharge exam or review, can but are not receiving compensation because they're on active duty, and purple heart recipients.

GUARANTEED LOAN: VA-guaranteed loans are made by private lenders such as banks, savings and loan associations, or mortgage companies. If the loan is approved, the VA guarantees the loan when it is closed. The guaranty means the lender is protected against loss if you or a future owner fails to repay the loan. The purpose of the guaranteed loan is to encourage lenders to make VA loans by protecting lenders/loan holders against loss, up to the amount of guaranty, in the event of foreclosure.

NO DOWNPAYMENT REQUIRED: Lenders may require downpayments for some borrowers using the VA home loan guaranty, but the VA does not require a downpayment.

For more information on the U.S. Department of Veterans Affairs home loans, visit the following resources:

Veterans Benefits Administration, VA home loan: www.benefits.va.gov/homeloans/index.asp

VA Pamphlet 26-7: www.benefits.va.gov/warms/pam26_7.asp

Veterans Benefits Administration, Real Estate Professionals: <https://www.benefits.va.gov/homeloans/realtors.asp>