

# WeExplain: VA Loans

## YOUR GUIDE TO USING THE VA LOAN

The VA loan is a mortgage loan that is guaranteed by the US Department of Veteran Affairs (VA). The VA Loan is a benefit provided to those who have served or are currently serving in the US Armed Forces, and can be used by Active Duty, Reserve, Guard, separated, or retired military members, and in some circumstances, surviving spouses.

### FAST FACTS

- Today, VA loans can close as quickly as conventional loans!
- The VA loan allows you to purchase a home with \$0 down.
- If you choose, you can still put money down on a VA loan, and potentially lower both your interest rate and your VA funding fee.
- The VA loan allows you to avoid paying Private Mortgage Insurance.
- As of 1 January 2020, home loan limits were eliminated for Veterans and service members with full entitlement.
- Not all lenders work with VA loans, so make sure to clarify in advance!
- The VA funding fee can be waived under certain circumstances, such as having VA disability compensation equal to or greater than 10%.
- You can purchase a single family, duplex, triplex or quadplex home with the VA loan.
- You can have multiple VA loans! If you are moving to a new base, you may qualify to use an additional VA loan. This can be huge, especially for unexpected base assignments!
- The VA appraisal does NOT replace a full home inspection.

**Click One of the Topics Below to Learn More**

**Loan Limits**

**Funding Fee**

**Appraisal**

# VA Loan Limits

A VA Home Loan is available to current and former US Armed Forces Service Members who meet the eligibility requirements. One of the most popular VA benefit, the VA Home Loan provides a number of great advantages over the traditional loan programs.

## Benefits Overview

- **No down payment required;** borrowers can borrow up to 100% of the sale price or appraised value (whichever is less).
- **No PMI (Private Mortgage Insurance);** conventional or FHA loans where borrowers put down less than 20% typically have the added cost of PMI which typically ranges from 0.5-1% of the loan amount annually. The VA Home Loan does Not charge you for PMI.
- **Credit Score requirement is lower** than other loan programs.
- **Limited closing costs.** Limits apply for how much a lender can charge for closing costs and terms allow the seller to pay all of these costs.
- **Lower interest rates.** VA Home Loans typically have the lowest rates of all options.
- **Can be used for multiple types of properties,** such as a condo, multi-family (2,3,4 units) and single-family homes.

## Loan Limits \*\*\*NEW UPDATE AS OF 1 JANUARY 2020\*\*\*

As of January 1, 2020, it is now even easier to buy your home using the VA Home Loan program. As of the first of the year, ***the home loan limits were eliminated for Veterans and service members with full entitlement*** under the Blue Water Navy Vietnam Veterans Act of 2019. This only applies to borrowers who have use of their full VA Home Loan entitlement (those who have no other outstanding VA Loans).

If you have another outstanding VA loan you can either sell your home or refinance into a different loan type in order to take advantage of the new law eliminating loan limits.

Location	Single Family (1, 2, 3 or 4 units)
Anywhere - Purchase post 1 January 2020 with full entitlement	No limit

## Subsequent/Multiple VA Loans – 2nd Tier

While the VA does not limit your borrowing when you have full VA loan entitlement (no other outstanding VA loans), they do limit the amount of your subsequent VA loans if you have other outstanding VA loans. The entitlement from previous VA loans will count against your next VA loan limits. The standard VA Home Loan limit is:

- Single Family (1, 2, 3 or 4 units) - \$510,400

The standard loan limit is based on median home prices nationally. In some markets, where the average home price is significantly higher than the national average, the VA Home Loan Limits are higher and service members can still take advantage of the 0% down payment option. Examples of such areas include Los Angeles, Boston, Washington DC, and San Diego.

Location	Single Family (1, 2, 3 or 4 units)
Los Angeles	\$765,600
Boston	\$690,000
Washington DC	\$765,600
San Diego	\$701,500

For those who are purchasing an additional home using the VA Home Loan program, they must qualify for the benefits:

- The borrower must be able to qualify for all the loans and afford the payments.
- The new home must be the primary residence.
- If you have an outstanding VA loan, the VA will consider the “remaining entitlement” and conforming loan limits (see above) when determining eligibility.

VA Home Loans provide a number of huge benefits compared to traditional home loans. These loans allow our current and retired military to enter the housing market at the lowest possible interest rates, down payment and costs, while having the flexibility they need.

# VA Funding Fee

Every home loan has some kind of fee or cost associated with it. The VA Home Loan is no exception. The good news is unlike traditional loans, the VA carefully monitors lenders and programs to ensure veterans and active military only pay the costs absolutely necessary. The goal is to remove junk fees and padded costs which allows our military to enter or continue in the housing market and are treated fairly and consistently.

As of January 1, 2020, the home loan limits have been removed for these borrowers using their VA benefit to purchase their primary residence; either as first-time buyers or those who will not have a subsequent home financed through the VA Home Loan program.

Among the costs associated with VA Home Loans is the Funding Fee. This fee is applied to all VA Home Loans, whether used to purchase property or refinance an existing property. The VA Funding Fee is paid directly to the Department of Veterans Affairs to help fund the loan guaranty program. This program underwrites the home loan program and allows VA Home Loans to continue offering these great benefits to our military men and women.

The VA Funding Fee varies based on a number of factors.

- The type of loan (purchase or refinance)
- The amount of the down payment
- Whether or not service member has used the benefit before.

Additionally, veterans with service-connected disabilities and some other special circumstances could pay no fees at all.

## VA Funding Fee for Purchase Loans

New in 2020, Active Duty, Reserve and National Guard members all pay the same VA Funding Fee. The amount of the fee is also affected by the amount of the down payment and increases for subsequent loans as well.

Type of Service	Down Payment	1st Use	After the 1st Use
Active, Reserves & National Guard	None (0%)	2.3%	3.6%
	5%	1.65%	1.65%
	10%	1.4%	1.4%

Type of Service	Down Payment	1st Use	After the 1st Use
Cash-Out Refinance for Active, Reserve & Guard	N/A	2.3%	3.6%
Interest Rate Reduction Refinance Loan	N/A	0.50%	0.50%

In addition to new purchase home loans, the VA Home Loan program offers two refinance options - The Interest Rate Reduction Refinance Loan and the Cash-Out Refinance. The Interest Rate Reduction Refinance Loan provides the ability of borrowers to reduce their interest costs if rates drop. The Cash-Out Refinance allows current and former military service members to take some of the equity they have accumulated.

### **Paying the VA Funding Fee**

The lender will verify funding fee status during the loan process. The Certificate of Eligibility will normally indicate whether the borrower must pay the Funding Fee and the cost. The fee is due at the time of loan closing and can be made as part of the closing cost settlement or some borrowers choose to roll the fee into their loan amount and pay it along with their normal monthly payment.

### **VA Funding Fee Exemptions**

As mentioned above, there are some exemptions to the VA Funding Fee:

- Veterans who receive compensation for service-related disabilities
- Active duty members who have received the Purple Heart
- Veterans who would be eligible for disability compensation if they didn't receive retirement pay.
- Veterans who are rated as eligible for compensations based on pre-discharge exam or review
- Veterans who can, but are not receiving compensation because they are on active duty
- Surviving spouses who are eligible for the VA Loan.

# VA Appraisals

Once a home buyer finds the right home and enters into a contract, then the final loan approval process begins. Part of this stage includes a home appraisal. For a VA Home Loan, the lender must use an independent VA approved appraiser.

A VA appraisal is different from a traditional home appraisal in that it includes two parts; the property valuation and the property condition. A VA Home Loan can only be used to finance properties which meet the VA guidelines for condition.

## Valuation

The first part of the VA Home Loan appraisal is to determine fair market value. The lender and the VA both want to ensure that the purchase price is in line with comparable homes in the area. This extra protection eliminates the chance of our military men and women overpaying for a property, especially in areas that are perhaps unfamiliar to them.

The process is simple. The VA appraiser will find 3 or more homes in the same area of the same size, age and features. They will then compare the prices and make sure the purchase price accurately reflects the market value. Once they arrive at a value, this is sent to the lender and borrower to review.

New in 2020, the Blue Water Navy Vietnam Veteran's Act of 2019 has removed the loan limits for Veterans and service members using VA financing for their primary residence, as long as they do not own another VA financed property. This change does not remove the appraisal requirement however; the purpose of the appraisal is to ensure the offer price is a fair market value.

## Condition

The second part of the VA Home Loan appraisal is a property condition review. Similar to a FHA appraisal, the VA requires that the property meet the Minimum Property Requirements.

These requirements include:

- **Residential Properties Only** – Only residential properties are eligible for VA financing. These include single family, duplex, triplex and fourplex, but commercial buildings are not acceptable.

- **Adequate Living Space** – The home must allow for normal living requirements, it must have space for living, sleeping, cooking and a bathroom.
- **Major Systems Must be Safe and Usable** – Electrical and plumbing must be safe and useable.
- **Heating must be Adequate** – The heating system must be able to keep the home at a temperature above 50 degrees Fahrenheit.
- **Running Water** – The home must have a safe, consistent water supply. The home must also have adequate sewage disposal and a hot water heater.
- **Roof** – The roof must be in good shape and provide a reasonable future utility. Missing shingles or holes are not acceptable.
- **Basements and Crawl Spaces** – Basements and crawl spaces must be free from debris, properly vented and mold free.
- **Property Access** – All properties financed with VA financing must have safe access to the street.
- **No Health or Safety Hazards**
- **No Construction Defects** – VA appraisers will assess for best practices in construction and craftsmanship.
- **Free from Termites**
- **No Lead-Based Paint**
- **Well/Septic Inspection** – If the home has a well and/or septic system the VA loan will require a third-party inspection of these items.

While a VA appraisal is more extensive than conventional home loan appraisals, it does not serve as a substitute for a professional home inspection. Contrary to an appraiser, a home inspector will dive much deeper into a home's major/minor systems and deliver a detailed report on the home's overall condition. Home inspections provide a comprehensive outlook on property conditions that may create a financial cost for the buyer sometime in the near future.

## Repairs

If the VA appraisal identifies condition issues with the property, this does not mean the end of the deal. Upon request from the buyer, the seller could be afforded the opportunity to make repairs prior to the close to remedy the situation. In this case, the VA appraiser might need to make a return visit to verify repairs.