

Department of  
Veterans Affairs

# VA Home Loans

## A Quick Guide for Homebuyers & Real Estate Professionals

VA Pamphlet 26-91-1  
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Veterans Benefits  
Administration

## **WHY A VA LOAN?**

The more you know about our home loan program, the more you will realize how little "red tape" there really is in getting a VA loan. These loans are often made without any down payment at all. Aside from the veteran's certificate of eligibility and the fact that the appraiser is assigned by VA, the application process is not much different than any other type of mortgage loan. And if the lender is approved for automatic processing and the Lender Appraisal Processing Program (LAPP), as more and more lenders are now, a buyer's loan can be processed and closed by the lender without waiting for VA's approval of the credit application or for VA to review the appraisal.

Lenders are also able to use VA recognized automated underwriting systems, such as [Loan Prospector](#) and [Desktop Underwriter](#), to facilitate the underwriting process.

## **FIVE EASY STEPS TO A VA LOAN**

### **1. Apply for a Certificate of Eligibility (COE).**

A veteran can obtain a COE by completing VA Form [26-1880](#), Request for a Certificate of Eligibility, and mailing it, along with proof of military service, to an eligibility center (see office list at back of pamphlet.) Also, veterans who have already begun the loan application process with a lender may request the lender to try and obtain a COE through ACE (Automated Certificate of Eligibility). More information about this online system can be found at our website which is: [www.homeloans.va.gov](http://www.homeloans.va.gov).

### **2. Decide on a home the buyer wants to buy and sign a purchase agreement.**

### **3. Order an appraisal from VA. (Usually this is done by the lender.)**

Ordering an appraisal can be done via the Internet using TAS ([The Appraisal System](#)). This is a centralized system that allows lenders easy and quick access to order an appraisal.

### **4. Apply to a mortgage lender for the loan.**

While the appraisal is being done, the lender can be gathering credit and income information. If the lender is authorized by VA to process loans on the automatic basis (and approx. 99% of all VA loans are processed this way) the loan can be approved and closed upon receipt of the appraised value determination without waiting for a VA review of the credit application. VA has also approved the use of several automated underwriting systems for lenders to use in connection with VA loans. The two main systems are [Loan Prospector](#) and [Desktop Underwriter](#). For loans that must be approved by VA, lenders send the credit package to VA. VA staff will then review it and notify the lender of the decision.

### **5. Close the loan and the buyer moves in.**

## **INTERESTED IN KNOWING MORE?**

See the next few pages for more on VA home loans.

## **VA FINANCING**

## **-A GOOD DEAL FOR VETERANS**

More than 27 million veterans and service personnel are eligible for VA financing. Even though many veterans have already used their loan benefits, it may be possible for them to buy homes again with VA financing using remaining or restored loan entitlement.

Before arranging for a new mortgage to finance a home purchase, veterans should consider some of the advantages of VA home loans:

- Most important consideration, no down payment is required in most cases.
- Loan maximum may be up to 100 percent of the VA-established reasonable value of the property. Due to secondary market requirements, however, loans generally may not exceed \$359,650.
- Flexibility of negotiating interest rates with the lender.
- No monthly mortgage insurance premium to pay.
- Limitation on buyer's closing costs.
- An appraisal which informs the buyer of estimated property value.
- Thirty year loans with a choice of repayment plans.
- **Traditional fixed payment** (constant principal and interest: increases or decreases may be expected in property taxes and homeowner's insurance coverage); **Graduated Payment Mortgage-GPM** (low initial payments which gradually rise to a level payment starting in the sixth year); and in some areas, **Growing Equity Mortgages-GEMs** (gradually increasing payments with all of the increase applied to principal, resulting in an early payoff of the loan.) **Hybrid ARMs**: VA is authorized to guarantee hybrid ARM loans where the initial rate remains fixed for at least 3 years. The initial adjustment can be as much as 2% if the fixed rate period is 5 or more years. Annual adjustments thereafter are limited to 1 percent. If the initial fixed rate period is 5 or more years, the interest rate on the loan is capped at 6 points above the initial rate. If the fixed rate period is less than 5 years, the initial adjustment is limited to 1 % and the annual cap to 5 percentage points. **Traditional ARM loans**: VA can also guarantee traditional one year ARM loans where the rate is adjusted annually. Annual adjustments are limited to 1 % and the maximum interest rate increase over the life of the loan is limited to 5 percentage points.
- New homes which are appraised before or during construction are inspected to help ensure compliance with the plans and specifications used for the appraisal and with VA minimum property requirements. All new houses, regardless of when appraised, are covered by either a 1-year builder's warranty or a 1 a-year insured protection plan.
- An assumable mortgage, subject to VA approval of the assumer's credit. Right to prepay loan without penalty.
- VA performs personal loan servicing and offers financial counseling to help veterans avoid losing their homes during temporary financial difficulties.

## **WHAT IS A VA-GUARANTEED LOAN?**

These loans are made by a lender, such as a mortgage company, savings and loan or bank. VA's guaranty on the loan protects the lender against loss if the payments are not made, and is intended to encourage lenders to offer veterans loans with more favorable terms. The amount of guaranty on the loan depends on the loan amount and whether the veteran used some entitlement previously. With the current maximum guaranty, a veteran who hasn't previously used the benefit may be able to obtain a VA loan up to \$359,650 depending on the borrower's income level and the appraised value of the property. The local VA office can provide more details on guaranty and entitlement amounts.

## **WHAT CAN A VA LOAN BE USED FOR?**

- To buy a home, a condominium unit in a VA-approved project.
- To build a home.
- To simultaneously purchase and improve a home.
- To improve a home by installing energy-related features such as solar or heating/cooling systems, water heaters, insulation, weather-stripping/caulking, storm windows/doors or other energy efficient improvements approved by the lender and VA. These features may be added with the purchase of an existing dwelling or by refinancing a home owned and occupied by the veteran. A loan can be increased up to \$3,000 based on documented costs or up to \$6,000 if the increase in the mortgage payment is offset by the expected reduction in utility costs. A refinancing loan may not exceed 90 percent of the appraised value plus the costs of the improvements. Check with a lender or VA for details.
- To refinance an existing home loan up to 90 percent of the VA-established reasonable value or to refinance an existing VA loan to reduce the interest rate.
- To buy a manufactured home and/or lot.

## **WHO IS ELIGIBLE?**

Veterans with active duty service, that was not dishonorable, during World War II and later periods are eligible for VA loan benefits. World War II (September 16, 1940 to July 25, 1947), Korean conflict (June 27, 1950 to January 31, 1955), and Vietnam era (August 5, 1964 to May 7, 1975) veterans must have at least 90 days' service. Veterans with service only during peacetime periods and active duty military personnel must have had more than 180 days' active service. Veterans of enlisted service which began after September 7, 1980, or officers with service beginning after October 16, 1981, must in most cases have served at least 2 years.

**Gulf War.** Basically, reservists and National Guard members who were activated on or after August 2, 1990, served at least 90 days and were discharged honorably are eligible. VA regional office personnel may assist with eligibility questions.

Members of the Selected Reserve, including National Guard, who are not otherwise eligible and who have completed 6 years of service and have been honorably discharged or have completed 6 years of service and are still serving may be eligible. Contact the local VA office to find out what is needed to establish eligibility. Reservists will pay a slightly higher funding fee than regular veterans. (See paragraph entitled "Costs of Obtaining a VA Loan").

## **HAD A VA LOAN BEFORE?**

### **Remaining Entitlement**

Veterans who had a VA loan before may still have "remaining entitlement" to use for another VA loan.

The current amount of entitlement available to each eligible veteran is \$36,000. This was much lower in years past and has been increased over time by changes in the law. For example, a veteran who obtained a \$25,000 loan in 1974 would have used \$12,500 guaranty entitlement, the maximum then available. Even if that loan is not paid off, the veteran could use the \$23,500 difference between the \$12,500 entitlement originally used and the current maximum of \$36,000 to buy another home with VA financing. For certain loans in excess of \$144,000, the basic \$36,000 entitlement can be increased to a maximum guaranty equal to 25 percent of the Freddie Mac conforming loan limit for a single family residence. To illustrate, the maximum guaranty for 2005 would be \$89,912. This is 25 percent of the 2005 Freddie Mac conforming loan limit for a single-family residence of \$359,650. This means qualified veterans can obtain a no down payment loan of up to \$359,650. Under Freddie Mac's charter, maximum original loan amounts are 50 percent higher for first mortgages on properties in Alaska, Hawaii, Guam and the U.S. Virgin Islands.

Most lenders require that a combination of the guaranty entitlement and any cash down payment must equal at least 25 percent of the reasonable value or sales price of the property, whichever is less. Thus, in the example, the veteran's \$23,500 remaining entitlement would probably meet a lender's minimum guaranty requirement for a no down payment loan to buy a property valued at and selling for \$94,000. The veteran could also combine a down payment with the remaining entitlement for a larger loan amount.

### **Restoration of Entitlement**

Veterans can have previously used entitlement "restored" to purchase another home with a VA loan if:

- The property purchased with the prior VA loan has been sold and the loan paid in full, or
- A qualified veteran-transferee (buyer) agrees to assume the VA loan and substitute his or her entitlement for the same amount of entitlement originally used by the veteran seller. The entitlement may also be restored one time only if the veteran has repaid the prior VA loan in full but has not disposed of the property purchased with the prior VA loan. Remaining entitlement and restoration of entitlement can be requested through the nearest VA office by completing VA Form [26-1880](#).

## HOW TO GET A VA LOAN

### VA Appraisal

Because the loan amount may not exceed VA's estimate of the value of the property, the first step in getting a VA loan is usually to request an appraisal. Although anyone (buyer, seller, real estate personnel or lender) can request a VA appraisal, usually this is done by the lender via the Internet using TAS ([The Appraisal System](#)). The appraiser will send a bill for his or her services to the requester according to a fee schedule approved by VA. To simplify things, VA and [HUD/FHA](#) (Department of Housing and Urban Development/Federal Housing Administration) generally use the same appraisal forms.

It is important to recognize that while the VA appraisal estimates the value of the property, it is not an inspection and does not guarantee that the house is free of defects. Homebuyers should be encouraged to carefully inspect the property themselves, or to hire a reputable inspection firm to help in this area. VA guarantees the loan, not the condition of the property.

### Application

The application process for VA financing is no different from any other type of loan. In fact the VA application form is the same as that used for [HUD/FHA](#) and conventional loans. The mortgage lender verifies the applicant's income and assets, and obtains a credit report to see that other obligations are being paid on time. If all is well and the appraised value of the property is enough to cover the loan needed, the lender, in most instances, can then close the loan under VA's automatic procedure. Only about 1 percent of VA loan applications have to be submitted to a VA office for approval before closing.

## REQUIREMENTS FOR LOAN APPROVAL

### To obtain a VA loan, the law requires that:

- The applicant must be an eligible veteran who has available entitlement.
- The loan must be for an eligible purpose.
- The veteran must occupy or intend to occupy the property as a home within a reasonable period of time after closing the loan.
- The veteran must be a satisfactory credit risk.
- The income of the veteran and spouse, if any, must be shown to be stable and sufficient to meet the mortgage payments, cover the costs of owning a home, take care of other obligations and expenses, and have enough left over for family support.

An experienced mortgage lender will be able to discuss specific income and other qualifying requirements.

## COSTS OF OBTAINING A VA LOAN

## **Funding Fee**

- A funding fee must be paid by all veterans, except those exempt due to receipt of disability compensation, using the VA home loan program.
- The funding fee can range from 0.5 percent for Interest Rate Reduction Refinancing Loans (IRRRL) to 3.3 percent for veterans who are subsequent users of the VA home loan program.
- For all VA loans, the funding fee may be paid in cash or included in the loan.
- For more information on the VA funding fee, contact the nearest VA office.

## **Other Closing Costs**

Reasonable closing costs may be charged by the lender. These costs may not be included in the loan.

The following items may be paid by the veteran purchaser, the seller, or shared. Closing costs may vary among lenders and also throughout the nation because of differing local laws and customs.

- VA appraisal
- Credit report
- Loan origination fee (usually 1 percent of the loan)
- Discount points
- Title search and title insurance
- Recording fees
- State and/or local transfer taxes, if applicable
- Survey

No commissions, brokerage fees or "buyer broker" fees may be charged to the veteran buyer.

## **NEED MORE INFORMATION?**

Veterans seeking more detailed information concerning the VA home loan program may request VA Pamphlet 26-4, VA-Guaranteed Home Loans for Veterans, or [VA Pamphlet 26-6](#), To the Homebuying Veteran, from the nearest [VA office](#). Loan Guaranty personnel at that office will also be pleased to answer specific questions and provide any other assistance they can.

Remember, VA-guaranteed financing is a benefit which Congress intended eligible veterans should have. If you are a veteran home buyer or know of one, it makes sense to look into the VA loan program as a good way to finance a home purchase.

To locate a VA facility, or to obtain more information on the VA Loan Guaranty program, visit [www.va.gov](http://www.va.gov) and click on Facilities Locator.

Your local VA regional office may be reached by dialing 1-800-827-1000.

## **Loan Guaranty Service Regional Office and Loan Centers Address List**

### **Atlanta RLC**

States of GA, NC, SC, TN  
Department of Veterans Affairs  
VA Regional Loan Center  
1700 Clairmont Rd.  
PO Box 100023  
Decatur, GA 30031-7023  
Phone: 1-888-768-2132

### **Cleveland RLC**

States of DE, IN, MI, NJ, OH, PA  
Department of Veterans Affairs  
VA Regional Loan Center  
1240 East Ninth Street Room 1395  
Cleveland, OH 44199  
Phone: 1-800-729-5772

### **Denver RLC**

States of AK, CO, ID, MT, NM, OR, UT, WA, WY  
Department of Veterans Affairs  
VA Regional Loan Center  
Box 25126  
Denver, CO 80225  
Phone: 1-888-349-7541

### **Honolulu**

State and territories of HI and Guam, Marshall  
Islands and Northern Marianas  
Spark M. Matsunaga (Bldg.)  
VA Medical & RO Center  
Loan Guaranty Office  
459 Patterson Road  
Honolulu, HI 96819-1522  
Phone: 808-433-0481

### **Houston RLC**

States of AR, LA, OK, TX  
Department of Veterans Affairs  
VA Regional Loan Center  
6900 Almeda Rd.  
Houston, TX 77090  
Phone: 1-888-232-2571

**Manchester RLC**

States of NY, NH, VT, ME, MA, CT, RI  
Department of Veterans Affairs  
VA Regional Loan Center  
275 Chestnut Street  
Manchester, NH 03101  
Phone: 1-800-827-6311

**Phoenix RLC**

States of AZ, CA, NV  
Department of Veterans Affairs  
VA Regional Loan Center  
3333 N. Central Avenue  
Phoenix, AZ 85012-2402  
Phone: 1-888-869-0194

**Roanoke RLC**

States of DC, VA, MD, KY, WV  
Department of Veterans Affairs  
VA Regional Loan Center  
210 Franklin Road SW  
Roanoke, VA 24011  
Phone: 800-933-5499

**San Juan**

Territory of Puerto Rico and the US Virgin Islands  
VA Regional Office  
150 Chardon Avenue  
PO Box 364867  
San Juan, PR 00936-4867  
Phone: 787-772-7318

**St. Paul RLC**

States of IA, IL, KS, MO, MN, NE, ND, SD, WI  
Department of Veterans Affairs  
VA Regional Loan Center  
1 Federal Drive  
Fort Snelling  
St. Paul, MN 55111-4050  
Phone: 1-800-827-0611

**St. Pete RLC**

States of FL, AL, MS  
Department of Veterans Affairs  
VA Regional Loan Center  
PO Box 1437  
St. Petersburg, FL 33731-1437  
Phone: 1-888-611-5916

## **Loan Guaranty Service Eligibility Centers address List**

### **For States East of the Mississippi River, please contact the**

VA Loan Eligibility Center  
PO Box 20729  
Winston-Salem, NC 27120  
Toll free number: 1-888-244-6711  
E-mail: [NCELGIB@vba.va.gov](mailto:NCELGIB@vba.va.gov)  
For overnight delivery use the following address:  
VA Loan Eligibility Center  
251 N. Main St.  
Winston-Salem, NC 27155

### **For States West of the Mississippi River, please contact the**

Los Angeles Eligibility Center  
P.O. Box 240097  
Los Angeles, CA 90024  
Toll free number: 1-888-487-1970  
E-mail: [vavbalan/lgyeli@vba.va.gov](mailto:vavbalan/lgyeli@vba.va.gov)  
LA Website: [www.vahomes.org/la/home.htm](http://www.vahomes.org/la/home.htm)

\* For overnight delivery use the following address:

VA Eligibility Center  
11000 Wilshire Boulevard  
Los Angeles, CA 90024

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Department of Veterans Affairs  
810 Vermont Avenue  
Washington, DC 20420

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