

# MORTGAGE LENDING UPDATE

By David Griffin

Past President of Mortgage Bankers Association of Middle Georgia

## VA Loans

VA loans are guaranteed in the amount of 25% of the original loan amount by the Veterans Administration, and by extension, the full faith and credit of the U.S. government. This guarantee is held by lender as additional "collateral" guaranteeing the loan's eventual repayment.

VA loans may be made up to 100% of the value (which is defined as the lesser of sales price or appraised value) plus the VA Funding Fee. VA does not require a down payment, but funds must be available for prepaid expenses and closing costs not being paid by the seller. No down payment is required from qualified VA applicants for loan amounts of up to \$417,000. Loan amounts greater than \$417,000 are allowed with additional down payment funds from the veteran.

Eligibility for the VA home loan program is determined by the Veterans Administration, and generally includes current active duty military with 90 days service, veterans discharged after 9/7/80 with two years active duty service, veterans discharged prior to 9/8/80 with 181 days of peacetime service or 90 days of wartime service, and Reservists and National Guardsmen with 6 years total service (or Reservists and National Guardsmen with 90 days active service if called up on or after 8/1/90). Dishonorably discharged veterans are not eligible.

You may also be eligible if you are an un-remarried spouse of a veteran who died while in service or from a service-connected disability or if you are a spouse of a service person missing in action or prisoner of war.

Eligibility is a life time benefit of the qualified veteran and can be used again and again, as long as previously financed homes are either sold and the associated VA loan is paid in full, or when another eligible veteran has assumed the loan and substituted their entitlement on the loan. Because the amount of entitlement has increased over the years, a veteran with un-restored entitlement may be able to purchase another home using their remaining or "bonus" VA Eligibility.

If a veteran's Certificate of Eligibility shows that the veteran has zero dollars in remaining "basic" entitlement (\$36,000), they should ask their lender about the possibility of using their "bonus entitlement". If a prior VA loan is either outstanding or paid in full, and the veteran still retains ownership of the property but no longer uses the property as their primary residence, a one time reuse of the Entitlement is allowed for a new primary residence.

The only ratio applicable to VA loans is the Total Debt Service ratio. Principal, interest, taxes and insurance (PITI) plus all long term debts exceeding 10 months in duration (and including child care expenses for young children, if applicable), should not exceed 41% of total gross monthly income. A test for minimum residual cash balances available for family support, based upon family size and sales price of home, must also be met.

VA funding fees (paid to the VA) are a percentage of the loan amount and are usually added to the loan amount (the Funding Fee is the only charge which may be added to the VA loan). There are no Funding Fees added to the monthly payment.

VA funding fees are: 2.15% for 100% loan to value (LTV) (first time use); 3.3% for 100% LTV (subsequent use); 1.5% for 95% LTV (anytime); and 1.25% for 90% LTV (anytime). Reservist's fees will be .25% higher than these, but the same 3.3% for subsequent use. Any veteran recipient of VA disability income, no matter how small that income might be, is exempt from having to pay a VA funding fee.

The seller may, if they choose, pay all closing costs and offer other seller concessions, in addition to paying closing costs, up to an additional 4% of the sales price. The payment of closing costs is not considered a seller concession and does not reduce the 4% limit. This would allow the seller to pay pre-paid expenses (escrow account establishment) and pay the veteran's VA funding fee rather than that fee being added to the veteran's loan amount, if the seller is so inclined.

Anyone eligible to apply for a VA home loan should definitely consider doing so. With all the changes we've seen in loan programs, it's good to have a program that has not changed.

*David Griffin has been financing homes in Macon, Warner Robins and all of Middle Georgia since 1983 and is a member of the Mortgage Bankers Association of Georgia, [mbag.org](http://mbag.org). For an archive of past articles visit [mbag.org/ML\\_Update.htm](http://mbag.org/ML_Update.htm).(02/18/2010)*