

Guaranteed Home Loans For Veterans

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The Department of Veterans Affairs Home Loan Program

VA-Guaranteed Home Loans for Veterans

Foreword

The main purpose of the VA home loan program is to help veterans finance the purchase of homes with favorable loan terms and at a rate of interest which is competitive with the rate charged on other type 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.

This pamphlet should help you to understand what VA can and cannot do for the home purchaser. However, it is not a legal document and should not be interpreted as one. Nothing should be taken as a change of law or regulations. The pamphlet does not attempt to go into detail or into unusual problems. Information about VA loans is given in a narrative format followed by questions and answers in those areas of the greatest concern.

It is suggested that the pamphlet be read in its entirety. Please pay particular attention to the information about:

1. your responsibility to determine the condition of the property you purchase, and
2. assumption of your VA loan and obtaining a release of liability.

Any questions you have which are not answered here should be referred to the Loan Guaranty Division at the nearest VA regional office, or to your lender who will take them up with VA if necessary. A list of VA offices may be found in the Help section.

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6 Steps in Arranging a Veteran's Guaranteed Loan

- 1. Find the property suitable for your needs.**
- 2. Go to a lender, and apply for the loan.**
- 3. Present your discharge or separation papers relating to latest period of service and/or a Certificate of Eligibility.**
- 4. Property is appraised by approved appraiser.**
- 5. Estimate of property's reasonable value is determined.**
- 6. If application is approved, you get the loan.**

WHAT VA CAN DO

VA loans offer the following important advantages over most conventional loans:

- Ensure that all veterans are given an equal opportunity to buy homes with VA assistance, without regard to their race, color, religion, sex, handicap, familial status or national origin.
- No downpayment (unless required by the lender, the purchase price is more than the reasonable value of the property as determined by VA, or the loan is made with graduated payment features);
- A negotiable fixed interest rate competitive with conventional mortgage interest rates;
- The buyer is informed of the estimated reasonable value of the property;
- Limitations on closing costs;
- An assumable mortgage. However, for loans closed on or after March 1, 1988, the assumption must be approved in advance by the lender or VA. Generally, this involves a review of the creditworthiness of the purchaser (ability and willingness to make the mortgage payments). Be sure to see the section entitled "Loan Repayment Terms";
- Long amortization (repayment) terms;
- Right to prepay without penalty (lenders may require that any partial prepayments be in the amount of at least 1 monthly installment of principal or \$100, whichever is less);
- For houses inspected by VA during construction, a warranty from the builder and VA assistance in trying to obtain the builder's cooperation in correcting any justified construction complaint.
- Forbearance (leniency) extended to worthy VA homeowners experiencing temporary financial difficulty.

WHAT VA CANNOT DO

- **GUARANTEE THAT THE HOUSE YOU BUY, WHETHER IT IS NEW OR PREVIOUSLY OCCUPIED, WILL BE FREE OF DEFECTS.** The VA appraisal is NOT intended to be an "inspection" of the property. If you have any doubts about the condition of the house, it is in your best interest to seek expert advice BEFORE you legally commit yourself in a purchase agreement. Most sellers will permit you, at your expense, to arrange for an inspection by a qualified residential inspection service and negotiate with you concerning repairs to be included in the purchase agreement. Such action can prevent later problems, disagreements and disappointments. Remember, VA guarantees only the loan, NOT the condition of the property. It is your responsibility to be an informed buyer and assure yourself that what you are buying is satisfactory to you in all respects.
- If you have a home built, VA cannot compel the builder to correct construction defects or otherwise live up to the contract. VA authority is limited to suspension of the builder from participation in the VA Loan Guaranty program.
- VA cannot guarantee that you are making a good investment, or that you can resell the house at the price you paid.
- VA does not have authority to provide you with legal services.

REQUIREMENTS FOR VA LOAN APPROVAL

To get a VA loan, the law requires that:

- You must be an eligible veteran who has available home loan entitlement (except in the case of an interest rate reduction refinancing loan - see 'Interest Rates');
- The loan must be for an eligible purpose;
- You must occupy or intend to occupy the property as your home within a reasonable period of time after closing the loan;
- You must have enough income to meet the new mortgage payments on the loan, cover the costs of owning a home, take care of other obligations and expenses, and still have enough income left over for family support (a spouse's income is considered in the same manner as the veteran's); and
- You must have a good credit record.

THE GUARANTY

VA guaranteed loans are made by private lenders such as banks, savings and loan associations, or mortgage companies. To get a loan, you apply to the lender. If the loan is approved, VA guarantees the loan when it is closed. The guaranty means the lender is protected against loss if you or a later owner fails to repay the loan.

Questions and Answers

1. How much is the guaranty?

VA will guarantee up to 50 percent of a home loan up to \$45,000. For loans between \$45,000 and \$144,000, the minimum guaranty amount is \$22,500, with a maximum guaranty, of up to 40 percent of the loan up to \$36,000, subject to the amount of entitlement a veteran has available. For loans of more than \$144,000 made for the purchase or construction of a home or to purchase a residential unit in a condominium or to refinance an existing VA guaranteed loan for interest rate reduction, the maximum guaranty is 25 percent up to \$50,750. (See "Service Eligibility" section for information about entitlement.)

2. Is \$36,000 the biggest loan a veteran can get?

No. You may generally borrow up to the reasonable value of the property or the purchase price, whichever is less, plus the funding fee, if required. For certain refinancing loans, the maximum loan is limited to 90 percent of the value of the property, plus the funding fee, if required. To determine the reasonable value, VA requires an appraisal of the property. (Also see "Down payment Requirements")

3. What is the maximum VA loan?

Although there is no maximum VA loan (limited only by the reasonable value or the purchase price), lenders generally limit the maximum VA loan to \$203,000 because most VA loans are sold in the secondary market, which limits VA loans to that amount.

4. Is a guaranteed loan a gift?

No. It must be repaid, just as you must repay any money you borrow. The VA guaranty, which protects the lender against loss, encourages the lender to make a loan with terms favorable to the veteran. But if you fail to make the payments you agreed to make, you may lose your home through foreclosure, and you and your family would probably lose all the time and money you had invested in it, if the lender does take a loss, VA must pay the guaranty to the lender, and the amount paid by VA must be repaid by you. If your loan closed on or after January 1, 1990, you will owe the Government in the event of a default only if there was fraud, misrepresentation, or bad faith on your part.

5. Does VA make any loan directly to eligible veterans?

Yes, but only to Native Americans on trust land or to supplement a grant to get a specially adapted home for certain eligible veterans who have a permanent and total service-connected disability(ies). See VA

Pamphlet 26-93-1 for information concerning direct loans to Native American Veterans. See VA Pamphlet 26-69-1 for information concerning specially adapted housing grants.

SERVICE ELIGIBILITY

You are eligible for VA financing if your service falls within any of the following categories:

Wartime Service. If you served any time during

- World War II (September 16, 1940 to July 25, 1947),
- Korean Conflict (June 27, 1950 to January 31, 1955),
- Vietnam Era (August 5, 1964 to May 7, 1975), or
- Persian Gulf War (August 2, 1990 to present (requires service for 2 years or the full period for which called to active duty, except that exceptions applying to service between September 7, 1980 and August 1, 1990 also apply to Persian Gulf War. See next page.)),

you must have served at least 90 days on active duty and been discharged or released under other than dishonorable conditions. If you served less than 90 days, you may be eligible if discharged because of a service-connected disability.

Peacetime Service. If your service fell entirely within any one of the following periods:

- July 26, 1947 to June 26, 1950,
- February 1, 1955 to August 4, 1964, or
- May 8, 1975 to September 7, 1980 (if enlisted) or to October 16, 1981 (if officer),

you must have served at least 181 days of continuous active duty and been discharged or released under conditions other than dishonorable. If you served less than 181 days, you may be eligible if discharged because of a service-connected disability.

Service between September 7, 1980 (enlisted) or October 16, 1981 (officer) and August 1, 1990.

If your entire period of service was between 9/7/80 (10/16/81) and 8/1/90, you must have:

- Completed 24 months of continuous active duty or the full period (at least 181 days) for which you were called or ordered to active duty, and been discharged or released under conditions other than dishonorable.
- You may also be determined eligible if you were discharged for a service-connected disability, or you were discharged for the convenience of the government after completing at least 20 months of a 2-year enlistment,
- or you completed 181 days of active duty and:
 1. were discharged because of a hardship, or
 2. were determined to have a service connected, compensable disability, or
 3. were discharged or released from active duty for a medical condition which preexisted service and has not been determined to be service connected, or
 4. received an involuntary discharge or release from active duty for the convenience of the Government as a result of a reduction in force, or
 5. were discharged or released from active duty for a physical or mental condition not characterized as a disability and not the result of misconduct but which did interfere with your performance of duty.

Note: During the Persian Gulf War, the foregoing exceptions to the 2-year requirement apply, except that 90 days of active duty is sufficient in lieu of 181 days.

Active Duty Service Personnel. If you are now on active duty, you are eligible after having served on continuous active status for at least 90 days. When an ending date is established for Persian Gulf War service, a minimum of 181 days of continuous active duty will be required for persons who did not have wartime service.

Members of the Selected Reserve. Individuals who are not otherwise eligible and who have completed at least 6 years in the Reserves or National Guard, or been discharged because of a service-connected disability, and (1) have been discharged under honorable conditions, or (2) have been placed on the retired list, or (3) have been transferred to an element of the Ready Reserve other than the Selected Reserve, or (4) continue to serve in the Selected Reserve are eligible for a GI loan. (Eligibility for members of the Selected Reserve expires September 30, 2007.)

Other Types of Service

- Certain United States citizens who served in the armed forces of a government allied with the United States in World War II.
- Unremarried surviving spouses of the above described eligible persons who died as the result of service or service-connected injuries. (Children of deceased veterans are not eligible.)
- The spouse of any member of the Armed Forces serving on active duty who is listed as missing in action, or is a prisoner of war and has been so listed for a total of more than 90 days.
- Individuals with service as members in certain other organizations, services, programs and schools may also be eligible. Questions about whether this service qualifies for home loan benefits should be referred to the Loan Guaranty Division of the nearest VA regional office.

Obtaining a Certificate of Eligibility

VA determines your eligibility and, if you are qualified, VA will issue you a certificate of eligibility to be used in applying for a VA loan.

Should you need to request a certificate from VA, you must complete VA Form 26-1880, Request For A Certificate of Eligibility For VA Home Loan Benefits and submit it to one of our VA Eligibility Centers **along with** acceptable proof of service as described on the instruction page of the form.

Questions and Answers

1. What service is not eligible?

You are *not* eligible for VA financing based on the following:

- World War I service.
- Active Duty for Training in the Reserves.
- Active Duty for Training in the National Guard (unless "activated" under the authority of title 10, U.S. Code).

2. Does this kind of service provide entitlement to any other veterans' home loan benefit?

Yes. World War I and Active e Duty for Training service may qualify you for a HUD/FHA veterans' loan.

Under the National Housing Act loan program, the Federal Housing Administration of the Department of Housing and Urban Development administers a loan program for veterans. Financing under this program is available under slightly more favorable terms than those available to non veterans: VA's only role in this program is to determine the eligibility of the veteran and, if qualified, issue a Certificate of Veteran Status as evidence of entitlement to HUD/FHA loan benefits for veterans.

You may get a Certificate of Veteran Status by completing VA Form 26-8261a, Request for Certificate of Veteran Status, and submitting it with the attachments listed in the instructions to any VA regional office or center for a determination of eligibility.

All veterans discharged under other than dishonorable conditions from at least 90 days of service which began before September 8, 1980, are eligible. Veterans of enlisted service in a regular component of the Armed Forces, which began a her September 7, 1980, or officers or reservists who entered on active duty after October 13, 1982, must have served at least 24 months of service or the full period for which called to active duty or Active Duty for Training before being discharged, unless the discharge was for hardship or disability.

3. What can a veteran do who has lost his or her original discharge papers and does not have a legible copy?

The veteran should obtain a Certificate in Lieu of Lost or Destroyed Discharge. Any VA Veterans Benefits Counselor at the nearest VA office will assist a veteran in obtaining necessary proof of military service.

4. Does a veteran's home loan entitlement expire?

No. Home loan entitlement is generally good until used. However, the eligibility of service personnel is only available so long as they remain on active duty. If they are discharged or released from active duty before using their entitlement, a new determination of their eligibility must be made, based on the length of service and the type of discharge received. Note: Eligibility for members of the Selected Reserve expires September 30, 2007.

5. How much entitlement does each veteran have?

Originally, the maximum entitlement available was \$2,000; however, legislation enacted since that time has provided veterans with increases in entitlement up to the present maximum of \$36,000 (or up to \$50,750 for certain loans over \$144,000). The \$36,000 may, however, be reduced if entitlement has been used before to get a VA loan. The amount of remaining entitlement can be determined by subtracting the amount of entitlement used from the current maximum available entitlement of \$36,000. (See question 8 below for information on using remaining entitlement.)

6. Does VA home loan entitlement provide cash to the veteran?

No. The amount of entitlement relates only to the amount VA will guarantee the lender against loss.

7. Can a veteran get used entitlement back to use again?

If you have used all or part of your entitlement, you can get that entitlement back to purchase another home if the following conditions for "restoration" are met:

- The property has been sold and the loan has been paid in full, or
- A qualified veteran-transferee (buyer) must agree to assume the outstanding balance on the loan and agree to "substitute" his or her entitlement for the same amount of entitlement you originally used to get the loan. The buyer must also meet the occupancy and income and credit requirements of the law.
- ONE TIME ONLY if you have repaid the prior VA loan in full, but have not disposed of the property securing that loan, the entitlement you used in connection with that loan may be restored.

Restoration of entitlement is not automatic. You must apply for it by completing and returning VA Form 26-1880 to any VA regional office or center. Application forms for substitution of entitlement may be requested from the VA office that guaranteed the loan.

8. If the requirements for restoration cannot be met, is there any other way a veteran can obtain another VA loan?

Yes. 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 (\$50,750) for certain loans over \$144,000). 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.

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 downpayment 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.

9. May several veterans use their entitlement to acquire property together?

Yes. The guaranty is based on each veteran's interest in the property, but the guaranty on the loan may not exceed the lesser of 40 percent of the loan amount or \$36,000 (\$50,750 for certain loans over \$144,000).

10. If both a husband and wife are eligible, may they acquire property jointly and so increase the amount which may be guaranteed?

They may acquire property jointly, but the amount of guaranty on the loan may not exceed the lesser of 40 percent of the loan amount or \$36,000 (\$50,750 for certain loans over \$144,000).

11. May a veteran join with a non veteran in obtaining a VA loan?

Yes, but the guaranty is based only on the veteran's portion of the loan. The guaranty cannot cover the nonveteran's part of the loan. This does not apply to a loan to a veteran and spouse when the spouse is not a veteran. (Consult lenders to determine whether they would be willing to accept applications for joint loans of this type.)

12. Does the issuance of a certificate of eligibility guarantee approval of a VA loan?

No. The veteran must still be found to be qualified for the loan from an income and credit standpoint.

ELIGIBLE LOAN PURPOSES

You may use VA-guaranteed financing:

- To buy a home.
- To buy a townhouse or condominium unit in a project that has been approved by VA.
- To build a home.
- To repair, alter, or improve a home.
- To simultaneously purchase and improve a home.
- To improve a home through installment of a solar heating and/or cooling system or other energy efficient improvements.
- To refinance an existing home loan.
- To refinance an existing VA loan to reduce the interest rate and add energy efficiency improvements.
- To buy a manufactured (mobile) home and/or lot.

- To buy and improve a lot on which to place a manufactured home which you already own and occupy.
- To refinance a manufactured home loan in order to acquire a lot.

Questions and Answers

1. Can a veteran get a VA loan to pay off the mortgage or other liens of record on his or her home?

Yes. The following refinancing loans are available under the VA guaranteed home loan program:

- To pay off the mortgage and/or other liens of record on the home. In most cases, the loan may not exceed 90 percent of the reasonable value of the property as determined by an appraisal, plus the funding fee, if required. The loan may include funds for any purpose which is acceptable to the lender, plus closing costs, including a reasonable number of discount points. A veteran must have available home loan entitlement. An existing loan on a manufactured home (except as noted below) may not be refinanced with a VA guaranteed loan.
- To refinance an existing VA loan to obtain a lower interest rate. Use of additional loan entitlement is not required. The loan amount is limited to the balance of the old loan plus the closing costs, discount points, funding fee, and up to \$6,000 in energy efficient improvements. An existing VA loan on a manufactured home may be refinanced to obtain a lower interest rate.

2. Can a veteran get a VA business loan?

No, but business loans may be obtained through the SBA (Small Business Administration). The SBA gives preference to veterans wishing to obtain small business assistance. For more information on this financing, consult your telephone directory for the SBA office nearest you.

3. Can a veteran get a VA farm loan?

No, except for a farm on which there is a farm residence which will be personally occupied by the veteran as a home. The veteran may or may not conduct farming operations. If farming operations are to be the primary source of the borrower's income, then it must be established that the venture has a reasonable likelihood for success. If the borrower plans to use the residence, but has a source of income other than the farm which will be the primary source of income, then the farming operations need not be considered. Other types of farm financing may be obtained through the Farmers Home Administration which gives preference to veteran applicants. Additional information can be obtained by contacting a local office of that agency, the address and telephone number of which can be found in your telephone directory.

4. Can a veteran get a VA loan to buy or construct a residential property containing more than one family unit?

Yes, but the total number of separate units cannot be more than four if one veteran is buying. If more than one veteran is buying, then one additional family unit may be added to the basic four for each veteran participating; thus, one veteran could buy four units; two veterans, six units; three veterans, seven units, etc.

In addition, if the veteran must depend on rental income from the property to qualify for the loan, the veteran must (a) show that he or she has the background or qualifications to be successful as a landlord, and (b) have enough cash reserves to make the loan payments for at least 6 months without help from the rental income.

5. Can a veteran get a VA loan to purchase a cooperatively owned apartment?

Generally not. Statutory lien requirements, and the fact that all or almost all of the members of the cooperatively owned apartment must be veterans who are using their entitlement, have presented considerable difficulties in obtaining VA financing for these purchases.

6. Can a veteran obtain a VA loan for the purchase of property in a foreign country?

No. The property must be located in the United States, its territories, or possessions. The latter consist of Puerto Rico, Guam, Virgin Islands, American Samoa and Northern Mariana Islands.

7. Can a veteran obtain a loan from a private lender in one State for the purchase of property in another State?

Yes. However, many lenders limit their lending operations to certain areas.

8. May a lender require security from the veteran in addition to the property being purchased?

Yes. This is a matter between the veteran and the lender. While VA does not require that additional security be taken, it does not object if the veteran is willing.

APPLYING FOR THE LOAN

VA-guaranteed loans are obtained by making application to private lending institutions.

Lenders may be found by asking in the community in which you live what firms in the area make home loans. This information may be obtained from the local chamber of commerce, by looking in the telephone directory under "Mortgages," or by inquiring at banks, savings and loan associations, mortgage companies, real estate brokers' offices, and other public and private lending agencies. The local VA regional office will also provide a list of lenders who are active in the program.

Most mortgage lenders will have the forms and other necessary papers to apply for a certificate of eligibility and for the loan and will help you fill them out. Any lender who does not have the forms may obtain them from the nearest VA regional office.

If you have a certificate of eligibility, you should present it to your lender when making your loan application, because the lender will want assurance that you are eligible before accepting the application. However, a lender will undoubtedly discuss the possibility of making a VA loan to you without seeing the certificate. In fact, many lenders will assist you in applying for a certificate of eligibility. So, even if you have not obtained a certificate, you should not delay making an application to a lender for a loan just for this reason.

To reduce delays in the processing of the loan, you should be prepared to give the lender the complete names and addresses and your employee identification numbers for present and past employers covering a 2 year period. You should also have available the location and account numbers for savings and checking accounts and all open and recently closed debts and obligations.

Questions and Answers

1. If a lender is unwilling to accept a veteran's application for a loan, what should the veteran do?

The veteran should see another lender. The fact that one lender is not interested in making the loan the veteran wants does not mean that other lenders will not make the loan.

2. How are VA loans processed?

There are two ways a lender may process VA home loans-on a "priorapproval" or "automatic" basis.

When the loan is processed on a prior approval basis, the lender takes your application, requests VA to appraise the property, and verifies your income and credit record. All this information is put together in a loan package and sent to VA for review. If VA approves the loan, a commitment by VA to guarantee the loan is sent to the lender. The lender then closes the loan and sends a report of the closing to VA. If the loan complies with VA requirements, VA issues the lender a certificate of guaranty.

In automatic processing, the lender still orders an appraisal from VA, but has the authority to make the credit decision on the loan without VA's approval. The biggest difference between prior approval and automatic processing is the time saved by avoiding the need to await VA's approval before loan closing.

All lenders do not have the authority to process loans on the automatic basis. Banks, savings and loan associations, and certain other lenders such as mortgage companies which are approved by VA have the privilege of processing VA guaranteed loans using the automatic procedure.

Lenders approved to participate in VA's Lender Appraisal Processing Program (LAPP) are generally able to expedite the processing of VA appraisals.

3. What should a veteran do while waiting for loan approval?

Sometimes it may take longer than you might expect for the lender or VA to process your loan application. For instance, your current or former employer may be slow in returning an employment verification form, or it may take some time to obtain a credit rating from out of State creditors. Occasionally, the application VA receives from the lender is incomplete in some important aspect and requires that VA ask the lender to furnish additional information before a final decision can be made. Ordinarily, you should plan on an average of 4 to 6 weeks to obtain a decision on your application.

In any case, information on the progress of your application should be obtained from the lender, who will be most aware of developments as they occur.

It is most important that you not make any commitments based on an expected approval of your loan. You should not, for example, give notice to your landlord until the loan is actually approved by VA (or by your lender if the automatic processing procedure is used). Generally, it is not advisable to move into the home before the loan is approved. If for some reason the loan is not obtained, you could be faced with additional expense and inconvenience.

LOAN REPAYMENT TERMS

The maximum VA home loan term is 30 years and 32 days; however, the term may never be for more than the remaining economic life of the property as determined by the appraisal.

Questions and Answers

1. May a veteran pay off a VA loan before it becomes due?

Yes. A VA loan may be partially or fully paid at any time without penalty. Partial payments may not be less than 1 monthly installment or \$100, whichever is less. (Consult your lender.)

2. May the maturity on a VA loan be extended to reduce the monthly payments?

Yes, provided the veteran and the lender want to extend it and the extension provides for complete repayment of the loan within the maximum period permitted for loans of its type.

3. If a veteran dies before the loan is paid off, will the VA guaranty pay off the balance of the loan?

No. The surviving spouse or other coborrower must continue to make the payments. If there is no coborrower, the loan becomes the obligation of the veteran's estate. Protection against this may be obtained through mortgage life insurance, which must be purchased from private insurance sources.

4. Will the veteran's payments always be paid to the same company?

No. It is common practice in the mortgage lending industry to sell mortgages, often before the first payment is even due. If your loan is sold, you may find that you sent your first payment to the wrong place and the new holder of your loan may send you an overdue notice. Even though you know you made the payment, and it is up to the two lenders to get it straightened out, do not ignore the notice. (Most lenders will notify the veteran if the loan is sold and help straighten out any problems.)

5. Does having a VA loan limit a veteran's right or ability to sell the property?

No. A veteran may sell the property to a veteran or non veteran at any time. However, if the loan was closed after March 1, 1988, and it will be assumed, the qualifications of the assumer must be reviewed and approved by the lender or VA.

6. When a veteran sells the property to someone who will assume the existing VA loan, is the veteran released automatically from personal liability for repayment of the loan?

No. If the loan was closed after March 1, 1988, the lender or VA must be notified and requested to approve the assumer and grant the veteran release from liability. If the loan was closed prior to March 1, 1988, the loan may be assumed without approval from VA or the lender. However, the veteran is strongly urged to request a release of liability from VA.

7. If a loan closed prior to March 1, 1988 can be assumed without VA's approvals why should a veteran be concerned about requesting and obtaining a release from personal liability?

If a veteran does not obtain a release of liability, and VA suffers a loss on account of a default by the assumer or some future assumer, a debt may be established against the veteran. Also, strenuous collection efforts will be made against the veteran if a debt is established.

8. How may a veteran obtain a release of liability from VA?

By having the buyer assume all of the veteran's liabilities on the VA loan, and by having VA or the loan holder approve the buyer and the assumption agreement. (If the VA loan closed prior to March 1, 1988, the application forms for a release of liability must be requested from the VA office that guaranteed the loan. If the VA loan closed on or after March 1, 1988, then the application forms must be requested from the lender to whom the payments are made.)

9. If a veteran obtains a release of liability, is restoration of entitlement automatic?

No. Restoration requirements may be found on page 9.

REPAYMENT PLANS

VA will guarantee loans to purchase homes made with the following repayment plans:

- **Traditional Fixed Payment Mortgage**

This type of mortgage loan calls for equal monthly payments for the life or term of the loan. Each monthly payment reduces a certain portion of the principal owed on the loan and pays interest accrued to date.

- **GPM (Graduated Payment Mortgage)**

This repayment plan provides for smaller than normal monthly payments for the first few years (usually 5 years), which gradually increase each year, and then level off after the end of the "graduation period" to larger than normal payments for the remaining term of the loan. The reduction in the monthly payment in the early years of the loan is accomplished by delaying a portion of the interest due on the loan each month and by adding that interest to the principal balance.

- **Buydowns**

The builder of a new home or seller of an existing home may "buy down" the veteran's mortgage payments by making a large lump sum payment up front at closing that will be used to supplement the monthly payments for a certain period, usually 1 to 3 years.

- **GEM (Growing Equity Mortgage)!**

This repayment plan provides for a gradual annual increase in the monthly payments with all of the increase applied to the principal balance. The annual increases in the monthly payment may be fixed (for example, 3 percent per year) or tied to an appropriate index. The increases to the monthly payment result in an early payoff of the loan in about 11 to 16 years for a typical 30 year mortgage.

DOWNPAYMENT REQUIREMENTS

- **Traditional Fixed Payment Mortgage, Buydown Loans, and Growing Equity Mortgage**

VA does not require a down payment if the purchase price or cost is not more than the reasonable value of the property as determined by VA, but the lender may require one. If the purchase price or cost is more than the reasonable value, the difference must be paid in cash from your own resources.

- **Graduated Payment Mortgage**

The maximum loan amount may not be for more than the reasonable value of the property or the purchase price, whichever is less. Because the loan balance will be increasing during the first years of the loans a down payment is required to keep the loan balance from going over the reasonable value or the purchase price.

INTEREST RATES

The interest rate on VA loans can be negotiated based on prevailing rates in the mortgage market. Once a loan is made, the interest rate set in the note will stay the same for the life of the loan.

However, if interest rates go down, and you still own and occupy (or previously occupied) the property securing a previous VA loan, you may apply for a new VA loan to refinance the previous loan at a lower interest rate without using any additional entitlement.

CLOSING COSTS

The cost of obtaining any mortgage can be quite a lot. VA regulates those closing costs that a veteran may be charged in connection with closing a VA loan. No commission or brokerage fees may be charged to you for obtaining a VA loan. However, you may pay reasonable closing costs to the lender in connection with a VA guaranteed loan.

Although some additional costs are unique to certain localities, the closing costs generally include VA appraisal, credit report, survey, title evidence, recording fees, a 1 percent loan origination fee, and discount points. The closing costs and origination charge may not be included in the loan, except in VA refinancing loans.

In addition to negotiating the interest rate with the lender, veterans may negotiate the payment of discount points and other closing costs with the seller. Often, sellers will consider paying some or all of the discount points required by the lender in order to complete the sale. This can have a big impact on the amount of cash you must pay out of pocket in order to complete the purchase. If the seller will not consider paying points, the veteran may be able to negotiate an interest rate with the lender which is sufficient to avoid the need to include any discount points in the transaction.

FUNDING FEE

A VA funding fee of 2.00 percent of the loan amount (2.75 percent for reservists) is also payable at the time of loan closing. This fee may be included in the loan and paid from the loan proceeds. The funding fee does not have to be paid by veterans receiving VA compensation for service-connected disabilities, or who but for the receipt of retirement pay would be entitled to receive compensation for service-connected disabilities, or surviving spouses of veterans who died in service or from a service-connected disability. If the veteran makes a downpayment of at least 5 percent, but less than 10 percent of the purchase price of the property, the funding fee is reduced to 1.50 percent of the loan amount (2.25 percent for reservists). If the veteran makes a downpayment of at least 10 percent, the funding fee is reduced to 1.25 percent of the loan amount (2.00 percent for reservists). If a veteran who has previously obtained a VA home loan obtains another loan with less than a 5 percent downpayment, the funding fee is 3.00 percent of the loan amount. With a downpayment of at least 5 percent, the funding fee is reduced to the percentages shown above for downpayments of at least 5 percent, but less than 10 percent, and for down payments of more than 10 percent.

Equal Housing Opportunity

Discrimination in the sale of housing because of race, color, religion, sex, handicap, familial status or national origin is prohibited by Federal laws. In November 1962, Executive Order 11063 banned discrimination in all federally assisted housing. The "Fair Housing Law," Title VIII of the Civil Rights Act of 1968, followed by amending legislation, required positive action be taken by Federal agencies to prevent discrimination in all housing. Further, title VIII protects you from the following acts when they are based on discrimination on account of race, color, religion, sex, handicap, familial status or national origin:

- Refusal to deal,
- Discrimination in terms of sale,
- Discriminatory advertising,
- False representations that a dwelling is not available,
- Blockbusting,
- Discrimination in financing, and
- Discrimination in real estate services.

These laws provide every person an equal opportunity to choose suitable housing.

The Department of Veterans Affairs affirmatively administers the VA housing program by assuring that all veterans are given an equal opportunity to buy homes with VA assistance. All VA program participants-builders, brokers and lenders offering housing for sale with VA financing-must comply with Executive Order 11063 and the Civil Rights Act of 1968, as amended.

Builders must sell newly constructed homes with VA financing to eligible veterans without regard to the race, color, religion, sex, handicap, familial status or national origin of the veteran.

Brokers participating in the VA home loan program must not discriminate against a person on the basis of race, color, religion, sex, handicap, familial status or national origin by refusing to show or sell a property; by discriminating in the terms of the sale; or by representing that property as not available for inspection.

Lenders participating in the VA loan program are required by the Civil Rights Act of 1968, as amended, to act on applications for VA home loans without regard to the race, color, religion, sex, handicap, familial status or national origin of the veteran. In addition, the Equal Credit Opportunity Act prohibits a lender from discriminating against an applicant on the basis of the foregoing, or on the basis of age or marital status; because an applicant's income derives from any public assistance program; or because the applicant has exercised any right under the Consumer Credit Protection Act. Lenders are also prohibited from discouraging applications on these grounds. To ensure that each applicant is fully aware of his or her rights under the Equal Credit Opportunity Act, a lender must provide each applicant with the Equal Credit Opportunity Act Notice and a written statement of the reasons when credit is denied.

Therefore, if you are seeking to use your entitlement to buy a home, you may be assured that VA will protect your civil rights and equal housing opportunity.

The following actions, when based on discrimination because of race, color, religion, sex, handicap, familial status, or national origin, are recognized violations of the Federal fair housing law:

- Refusal to negotiate to sell property.
- Discrimination in terms or conditions of sale of real property.
- Advertising indicating any racial, religious, ethnic or gender preference.
- False representations that real property is not available for inspection or sale.
- Blockbusting or inducing owners to sell real property by representations regarding entry into the neighborhood of persons of a particular race, color, religion, sex, handicap, familial status or national origin for profit.
- Discrimination in financing, terms or conditions of a loan, or denying a loan.

If you experience or suspect discrimination by a builder, broker, or lender, the local VA office will investigate. To start a VA investigation, submit a written complaint directly to the local VA office. Your complaint must describe the discriminatory action, including the date it occurred, names, addresses and telephone numbers of all parties involved in the action, and the address of the property involved. VA has a form for this purpose (VA Form 26-8827, Housing Discrimination Complaint) which you may request from your local VA office.

You should note that in many localities fair housing associations have been organized to assist you in locating and purchasing a house of your choosing. There may be such an organization in your area.

When the discrimination concerns HUD/FHA (Department of Housing and Urban Development/Federal Housing Administration) home loans and other housing, complaint letters should be sent to the Department of Housing and Urban Development, Assistant Secretary for Fair Housing and Equal Opportunity, Washington, D.C. 20410.

If you are unable to find new homes available for sale with VA financing in your area or if you are unable to determine whether particular homes being built are available for sale with VA financing, we suggest you contact the local VA regional office. In addition, in many areas VA has repossessed homes which it will sell to qualified buyers. Inquiry as to the availability of any VA repossessed homes for sale in the area in which you are interested may be made by contacting local real estate brokers.

Another area to be explored is the existence of State benefits. Many States offer housing programs which are independent from federal programs. The programs and benefits, as well as the qualifying criteria, may differ from one State to the next. Information on State programs may be obtained from State officials or from the local VA regional office.