Veterans homebuying guide

Serving the Military
Since 1957

Thank you for your selfless service to our great nation.

If you are ready to purchase a home using your VA benefit, we're here to help. Our VA Homebuying Guide helps answer some of the most common questions around applying for a VA loan, getting approved, and what to expect along the way.

As you progress through your homebuying journey, our team of real-estate lending experts is here for you at every step. Reach out anytime at realestatenewloans@servicecu.org.

Where to Begin

Consider Costs

First, you'll want to determine how much you can afford, including the mortgage payment, real estate taxes, home insurance and upkeep costs. You'll also want to review current rates and loan options to get a full picture of what your monthly payments may be.

Using your current rent or mortgage payment as a base, figure out how much more of your budget you can allocate to housing while having enough income to cover your other needs. An important guideline is that most mortgage lenders require that your payments will be no more than 28% of your gross household income, though there may be a little bit of wiggle room.

If you're renting now, remember that owning means you'll owe real estate taxes and home insurance premiums. You'll also be responsible for costs that may have been covered in your rent, including utilities, water, and home maintenance.

The one cost you likely won't have to worry about: having enough cash to make a down payment. With conventional mortgage loans, you need 20% of the purchase price. But down payments are required in only about 10% of the loans that the VA guarantees.

In addition to no down payment, the VA Home Loan Program offers benefits such as low closing costs, no loan limits, no personal mortgage insurance (PMI), and competitive interest rates.

Review Your Credit Standing

Before lenders approve mortgage loan applications, they want to be sure the loans will be repaid. Among the primary tools they use are your credit history, including your credit score. Both reflect information in the credit reports compiled by the three national credit reporting companies: Equifax, Experian, and TransUnion. Some, but not all, lenders require a minimum credit score, typically in the 620 range.

It is your right to access a free credit report annually from each of those three reporting companies, and it's important to review at least one of them about six months before you plan to buy. The best way to get your credit report is to go to annualcreditreport.com and follow the prompts, call 877.322.8228, or fill out the Annual Credit Report request form and mail it to Annual Credit Report Request Service, PO Box 105281, Atlanta, GA 30348-5281.

If you find errors that could damage your standing, you should try to have them resolved before applying for a mortgage loan. Each credit company's website explains the procedure to follow and what your rights are if the errors are not corrected.

Necessary Qualifications and How to Apply

To begin the homebuying process, you'll want to apply for a Certificate of Eligibility from the VA at www.va.gov/housing-assistance. You will need to provide your discharge papers (DD214) to apply. You may also call 877.827.3702, or send the application by mail using VA

Form 26-1880. Alternatively, if you're already in touch with a lender who makes VA mortgage loans, that lender can file for you.

To be eligible for the home loan program, you must have met the minimum active-duty service requirement based on when you served. In brief, that's 90 days if you served in the Korean or Vietnam war period, 181 consecutive days if you served between 1975 and 1980/1981, and 24 consecutive months if you served since. There are slightly different start dates for enlisted personnel and officers, and exceptions if you were discharged because of a disability or other reasons over which you had no control.

As a veteran, your eligibility also depends on what's known as the character of your service, indicated by your discharge status.

Full vs. Partial Entitlement

You have full entitlement if you haven't participated in the loan program before. That's also the case if you've fulfilled your obligation under a previously guaranteed loan, meaning:

- You paid off a previous loan in full and sold the home.
- You repaid in full any amount it cost the VA to meet its guaranty obligation on a home of yours that was foreclosed or disposed of in a short sale. A short sale occurs when a home is sold at a price lower than the outstanding balance due on the mortgage loan.
- Another qualified veteran has assumed, or taken over, your loan and substituted his or her entitlement for the original loan amount.

If you have met one of those conditions, you can apply to reuse your entitlement at www.va.gov. You can use your DS login or create a new account with ID.me, downloading VA Form 26-1880, and sending it to a VA Regional Loan Center in your state. The 05 code on your new COE means your full entitlement has been restored.

Partial Entitlement

If you have partial entitlement, you may qualify for a full new loan guaranty or use your remaining entitlement in combination with a down payment to buy a home. Here's an example:

- Suppose you own a home purchased with a $300,000 mortgage loan guaranteed by the VA. In a county with a $766,550 loan limit, your remaining partial entitlement would be $466,550. That's the difference between the current county loan limit and the amount of the previous mortgage loan. If you requested a new $300,000 mortgage, the VA would guarantee 25% of that amount since your remaining entitlement is large enough.

  But if you wanted to borrow $500,000, that amount would exceed your remaining entitlement of $466,550 by $33,450. You would need to make up part of the difference so that the total guaranteed amount is 25% of the $500,000.

Disability Housing Grants

The VA provides special housing benefits for veterans with permanent and total service-connected disabilities, including:

- Specially Adapted Housing (SAH) and Special Housing Adaptation (SHA) grants. They provide funding to construct, modify, or purchase a home that enables you to live independently or accommodates your disability.
- Temporary Residence Adaptation (TRA) grant. If you qualify for a SAH or SHA grant, and are living temporarily in a family member's home, a TRA grant provides financial support for structural modifications to accommodate your needs.

You can find out more about SAH and SHA grants and submit an application at www.va.gov/disability-housing-grants/how-to-apply. You can also apply by mail by downloading and completing VA Form 26-4555 or in person at your VA Regional Office.

Finding a Real Estate Agent

A real estate agent can represent either a buyer or a seller in a particular transaction. If you choose a buyer's agent to represent you, they will represent only your interest. If you don't have an agent of your own, you look at homes with and make offers to the listing agent.

Some states allow dual agency, which means it's legal to represent both the buyer and the seller in the same transaction, though strict conditions may apply. In other states, dual agency is illegal because of the potential conflict of interest.

In a limited number of states, you must sign a contract, called an agency agreement, with your buyer's agent. In the rest, a contract is optional, though an agent may request one. Basically, the contract commits you to working with the agent exclusively, ensuring that if you buy, the agent will be paid. You should have an escape clause that lets you terminate the contract if the agent fails to perform or does something not in your best interest.

Make sure you're comfortable working with your buyer's agent. To find the right agent for you, ask friends and family for recommendations, especially if they've used a VA loan guaranty to buy their home; visit or call local real estate companies to ask about their experience with veterans who want to buy, and conduct interviews with potential agents to confirm their experience with VA-guaranteed purchases.

How to Get Prequalified

Ready with a price range, and all your financials in order? A prequalification letter from a mortgage provider will help expedite the homebuying process and let you know how much a financial institution may be willing to lend you. To apply, you'll need to go through the standard mortgage application process, which includes questions about your income and employment, current debts, assets, and borrowing history.

Your prequalification letter will show how much you can afford to borrow, what your interest rate could be, and an estimate of your monthly payment based on assumed taxes and insurance. You may be able to lock in the rate you've been offered for up to several months while you're shopping for a home, and your prequalification will help your offer stand out against other prospective buyers.

At Service CU, we'll lock your rate for up to 90 days with no additional fee or rate adjustment.

Find Your Dream Home

The VA guaranty applies for almost any type of home you choose, from single family or multifamily properties to mobile or manufactured homes. You can also get a loan guaranty to build a new home or improve or modify an existing home.

Determine your needs and wants - location, minimum amount of bedrooms, adaptability, etc. – and communicate them with your agent before you begin your home search. This information, in conjunction with the agent's analysis of your financial situation, will determine the types of properties you visit.

Make an Offer

Found a home that checks off all your requirements? Get ready to make an offer!

If you have a buyer's agent, work with them to determine a bid, or price offer, that they will then pass on to the seller's agent, or do it on your own if you're working without an agent. Do not be surprised if there are several rounds of back and forth on the price.

Signing a Contract

When your offer on a home is accepted, the seller's agent or lawyer prepares a contract that details the key terms of the transaction, including:

- The agreed upon sale price
- The property that is covered by that price, including appliances or furnishings
- The date the sale will be finalized
- What contingencies, or situations, would void the agreement, such as your inability to arrange financing by a certain date.

Most of the language in the contract is boilerplate, but there may be certain provisions that protect the interests of the sellers. For example, they may want to make the settlement date contingent on their being able to move into a new home.

Before you sign the contract, it's smart and probably essential to have an experienced real estate attorney review and potentially modify the contract. You want to be sure its terms and conditions protect your interests, just as the sellers are protecting theirs. You don't want to agree to anything that could cost you extra time or money, or that might limit your rights if something doesn't work out.

For example, there should be a contingency, or escape, clause that allows you to withdraw your offer without penalty if the purchase price is higher than the mandatory VA appraised value and you can't work out a resolution. That appraisal follows being approved for a mortgage and sets the maximum price you can pay using the VA guaranty.

And, if it's customary in the area where you're buying to delay the inspection until after the contract is signed, you want the legal right to renegotiate the terms of the sale if serious flaws in the property are discovered.

You may want to ask your real estate agent, financial adviser, friends, or family to recommend a real estate attorney. Or if you have worked with an attorney in a different capacity, he or she may make a referral. The attorney may charge an hourly rate or a set fee calculated as a percentage of the purchase price.

Using the sellers' or lender's attorney may be a cost-saving alternative. But using someone who represents only your interest can be worth the added cost.

Submitting Your Loan Application

When you apply for a mortgage loan, the lender confirms the annual percentage rate (APR) that will apply. The underlying interest rate is determined by the current cost of borrowing, the type of loan, and the lender's view of your creditworthiness.

The type of loan you choose will affect the amount of interest you'll pay. The main types include:

- Fixed Rate: This type of loan has the same interest rate from the day you buy until you make the final payment.
- Adjustable-Rate Mortgage (ARM): ARMs have a variable interest rate. The initial payment is determined in the same way that a fixed rate loan is. But the rate is reset on a regular schedule, such as once a year, to reflect changes in the cost of borrowing. Each time the rate changes, the new rate is multiplied by the unpaid principal to determine the amount you owe each month until the next reset date.

The initial interest rate on an ARM is lower than if you took a fixed-rate loan. The advantage is that a lower rate means smaller monthly payments and lower closing costs. It also makes it easier to qualify for a loan. However, in evaluating whether you'll be able to afford the mortgage, the lender must calculate what your monthly payment would be at the highest possible rate it could possibly be within the first five years, not at what the rate is at closing.

- Hybrid: These loans offer a fixed interest rate for a specific period, such as three, five, or, in some cases, seven years. The rate is typically lower than it would be for a fixed loan, making it easier to qualify to borrow and more affordable. After the fixed period ends, the loan converts to an ARM and the rate changes at every adjustment date. For example, a loan described as a 5/1 loan has a fixed five-year term and then adjusts regularly, once each following year.

The lender will be able to increase your interest rate and, therefore, your monthly payment during the ARM period if borrowing costs increase. But if borrowing costs decrease, your rate may decrease, too.

If you are using a VA guaranty, you will only be able to apply for a fixed-rate or hybrid loan.

Ready to apply?

Visit servicecu.org/mortgage

How to Arrange a VA Appraisal

Following approval, your lender must request a VA appraisal.

The VA wants to be sure that a home purchased with its guaranty meets its minimum structural standards and is priced at or below its appraised value. Determining that amount is the job of an independent VA-approved appraiser.

When the job is complete, the appraiser provides a notice of value (NOV) that sets the value of the home. It also includes details of its floor layout and a list of things, if any, that must be repaired to meet the required standards.

If the appraisal is less than the asking price, you can back out of the deal using your escape clause or move ahead with the purchase, using one of the available options:

- Ask for a reconsideration and provide evidence of sales data for comparable homes to support your contention that the appraised value is too low.
- Renegotiate the price with the seller.
- Pay the difference between the appraised price and the sale price at the closing.

Insuring Your Home

When you buy a home with a mortgage loan, to protect its interest, the lender requires you to insure your home against damage to the structure that would reduce its value.

Insurance companies require you to cover your home for at least 80% of its value, an amount the insurer sets and that may increase each time the contract is renewed, normally once a year. But it's almost always wiser to insure for 100% of value.

You choose the amount of coverage you want for liability in case you are sued for injury or damage that occurs on the property. You may also be able to buy added coverage, called a policy endorsement or rider, for perils that aren't otherwise covered and for expensive possessions.

What to Expect at Closing

What happens at closing varies from state to state and sometimes within a state. But the result is the same:

- The seller receives the purchase price minus any amount owed on an outstanding mortgage loan, and the buyer receives the keys to the home.

- Typically, the closing is a meeting that you, your agent, and your attorney (if you have one) attend, along with the seller or a representative and the seller's agent, a representative of the lender, a closing or settlement agent, and a recording clerk or notary public. There may be others as well.
- Closing usually happens four to six weeks after signing a contract, though it may be sooner if you were preapproved for your mortgage loan.
- At least three days before the closing, your lender must provide a Closing Disclosure, which is a five-page document that includes the final loan terms, your closing costs, and your estimated monthly payments. If you find any errors, unanticipated fees, or significant changes in the terms, your agent or attorney should contact the lender immediately.

You should also review the other closing documents, including the promissory note required for the loan, the deed of trust and the deed. It may be possible to sign some of these ahead of time, reducing the time the closing takes.

A day or two before the closing, your agent should schedule a final walk-through of the home. You want to be sure, among other things, that any repairs the seller agreed to make have been completed and any furniture and appliances that the sellers agreed to leave are still there.

VA Funding Fee

When you use a VA loan guaranty, a one-time funding fee that's figured as a percentage of the total loan amount is due. However, you're exempt from this fee (approximately 2-3%) if you're receiving VA compensation for a service-related disability or are entitled to compensation but receiving retired pay instead.

You may pay the funding fee yourself or someone else, including the seller, may pay it on your behalf. Another option is to have the amount added to your mortgage loan so you can pay it off over time.

Closing Costs

You should expect to pay closing costs of between 2% and 6% of the loan amount, including the funding fee. The seller may agree to absorb some of these expenses, depending on local custom. But the VA caps what the seller can pay at 4% of the total charges. You may also have paid certain amounts earlier, including for the home inspection or your first homeowners' insurance premium.

Closing costs cover accessing your credit report, the title search and title insurance, the lender's appraisal, and the VA appraisal, among other items. The lender charges a loan origination fee, which the VA caps at a lower-than-average 1%. These amounts are not negotiable.

In most cases, you make the first payment toward your real estate taxes and perhaps homeowner's insurance bill at closing. After that, you pay a little more than one-twelfth of the annual amount of those costs with each monthly loan repayment. This guarantees that the lender or servicer will have money to pay those bills when they're due. These prepayments are generally held in an escrow or impound account that may pay interest, depending on the state.

If you have agreed to prepay an amount at closing to reduce your loan's interest rate, an arrangement known as discount points or buydowns, that payment is also handled at closing. Each point costs 1% of the mortgage loan and reduces your rate by 0.25%. For example, paying two points on a $200,000 loan with a 6% interest rate would cost $4,000 and reduce the interest rate to 5.5%.

Prepaying Your Loan

Home loans with a VA guaranty have no prepayment penalties. That means you have the right to pay off the loan at any time.

If you sell your home while you still have a mortgage loan, you pay it off in full, typically with money the seller pays for the property. In fact, the average mortgage is held fewer than 10 years.

Another way to pay down your loan more quickly than required is to make an extra payment each month, specifying that the additional amount should be used to reduce the principal.

Those who favor this approach point out that the extra payments reduce the term of the loan, which means you're paying interest for fewer months. If you have a hybrid loan, you also benefit because each time the rate is readjusted, it's calculated on a smaller outstanding principal.

Another perspective is that the interest rate on a mortgage loan is typically much lower than on other types of debt, such as credit cards. If you have extra money to spend, it might be used more effectively to reduce higher interest debt. In addition, even if you pay off a fixed-rate loan a few years early, you've already paid most of the interest. That means you might end up saving much less than you expected.

Repayment Problems

If you fall behind on your mortgage payments, you run the risk of foreclosure. That means your lender or servicer has the right to repossess the property and sell it to recover its investment.

While having a VA home loan guaranty doesn't protect you from foreclosure, the VA doesn't want foreclosure to happen any more than you do.

If repaying becomes a problem, you should contact your servicer immediately to explore alternatives to foreclosure. The options you're offered will depend on your financial circumstances and may range from a revised repayment plan or a modified loan agreement to a short sale. In a short sale, you sell the home for the best price you can get, even if it is less than you owe, with the sale price going to the lender or servicer to satisfy your debt.

If your loan is delinquent but not yet in foreclosure, about a four-month window, it's a good idea to call your VA Regional Loan Center for help at 877.827.3702. You can also get more information at www.va.gov/housing-assistance/ home-loans/trouble-making-payments.

Resources

Veterans Administration (VA) General Information • 800.698.2411 – TTY:711

VA Benefits Hotline • 800.827.1000

Additional phone numbers • www.va.gov/resources/helpful-va-phone-numbers

Commonly used VA Forms • www.va.gov/fifind-forms

VETERANS Benefits Administration (VBA) • 800.827.1000 https://benefifits.va.gov/benefifits

COE • 877.827.3702 • www.va.gov/housing-assistance

American Society of Home Inspectors • www.homeinspector.org

SAH and SHA Applications • www.va.gov/housing-assistance/disability-housing-grants/how-to-apply

VA Disability Housing Grants • www.va.gov/housing-assistance/disability-housing-grants

VA Regional Loan Center • www.va.gov/housing-assistance/home-loans/trouble-making-payments