

VA 1-2-3

A Realtor's Guide



By Sean Stephens

METROPLEX 
MORTGAGE SERVICES

Mortgage Lender

www.MPLX.org

Overview

Part 1: VA Loan History and Loan Comparison

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|---------------------|------------|
| A. VA Loan History | 10 minutes |
| B. Government Loans | 10 minutes |

Part 2: VA Eligibility, Funding Fee, Entitlement

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| A. VA Loan Eligibility and Entitlement | 15 minutes |
| B. VA Funding Fee | 10 minutes |

Part 3: Debt Ratios, Residual Income, Credit Qualifying

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|--|------------|
| A. Debt-to-Income Ratios and Residual Income | 10 minutes |
| B. Credit Qualifying | 10 minutes |

Part 4: 100% Financing, Seller Paid Costs, VA Condos, Private Roads

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|-----------------------------------|------------|
| A. What really is 100% financing? | 10 minutes |
| B. Seller Paid Settlement Charges | 10 minutes |
| C. Termite (WDO) Inspections | 5 minutes |
| D. VA Approved Condos | 5 minutes |
| E. Private Road Facts | 5 minutes |

Total **100 minutes (2 hours)**

Course Objectives

At the end of this course the student will be able to:

- ✓ Explain a brief history of VA Loans
- ✓ Compare and contrast other programs
- ✓ Describe VA Loan Eligibility – ACE
- ✓ Explain VA Entitlement
- ✓ Calculate a VA Guaranty
- ✓ Explain credit qualifying and waiting periods:
 - Short sale, Foreclosure, Bankruptcy
- ✓ Explain Debt Ratios and Residual Income
- ✓ 100% financing – What can be financed?
- ✓ VA Funding Fee calculations – What is it?
- ✓ Allowable seller paid costs
- ✓ Condo and Private Road qualifying

Part One: VA Loan History and Loan Comparison

History of the VA Loan Program (http://en.wikipedia.org/wiki/VA_loan#History)

- Founded in 1944 under the Servicemen's Readjustment Act, the law enabled the VA to guarantee or insure home, farm, and business loans made to veterans by lending institutions
- A 1970 amendment allowed for the financing of mobile homes
- In 1992, the Veterans Home Loan Program Amendments, extended program eligibility to Reservists and National Guard personnel who served honorably for at least six years without otherwise qualifying under the previous active duty provisions. Such personnel are required to pay a slightly higher funding fee when obtaining a VA home loan.
- On October 26, 2012, the Department of Veterans Affairs announced it has guaranteed 20 million home loans since its home loan program was established in 1944 as part of the original GI Bill of Rights for returning World War II Veterans.

Low Default Rates

1/30/12 VA Press Release:

<http://www.va.gov/opa/pressrel/pressrelease.cfm?id=2255>

“According to the Mortgage Bankers Association National Delinquency Survey, VA’s foreclosure rate for the last 14 quarters and serious delinquency rate for the last 11 quarters have been the lowest of all measured loan types, even prime loans.”

10/26/12 VA Press Release:

<http://www.va.gov/opa/pressrel/pressrelease.cfm?id=2400>

“The program makes home ownership more affordable for eligible Veterans, Service members, and surviving spouses by providing access to lower cost financing. VA loans are also attractive within the mortgage industry because they protect lenders from loss if the borrower fails to repay the loan. Mortgages guaranteed by VA have had the lowest foreclosure rate for the last 17 quarters and the lowest delinquency rate for the last 14 quarters compared to all other types of home loans in the nation, including prime loans, according to a report by the Mortgage Bankers Association.”

Government Loan Highlights



FHA

96.5% (3.5% down payment)
Monthly and Financed MIP



USDA

100% Financing
Rural Areas Only
Monthly premium and Financed
Guarantee Fee



VA

100% Financing
Only available for eligible
service members
No monthly costs, but VA funding
fee may apply

Automated Underwriting (AUS)

- ✓ VA Loans can be processed with both DU® or LP for preliminary eligibility determination.
- ✓ This can result in either an eligible or accept result, but could possibly also refer for additional review by an underwriter using manual underwriting guidelines.*



DEPARTMENT OF VETERANS AFFAIRS

Regional Office
1240 East Ninth Street
Cleveland OH 44199

February 4, 2000

In Reply Refer To: 325/261
Information Letter 26-00-04

TO: All VA Program Participants

SUBJ: VA Approval of Fannie Mae's "DESKTOP UNDERWRITER FOR VA" and the "pmiAURA SYSTEM FOR VA"

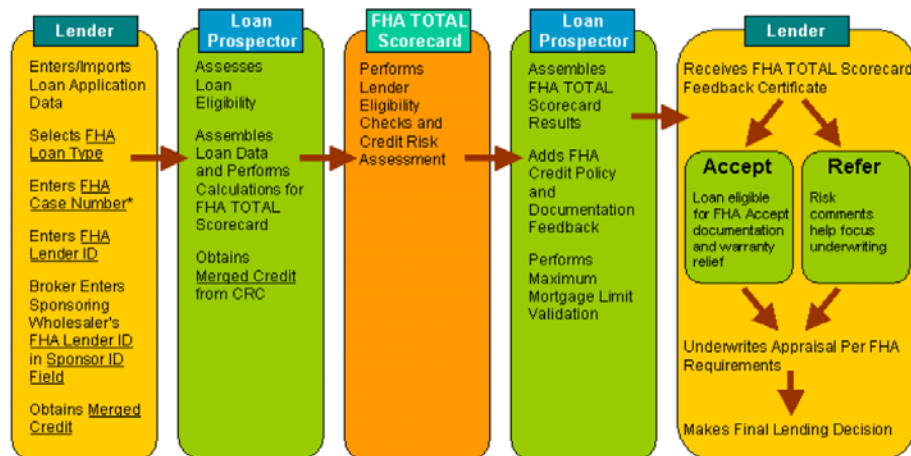
1. **PURPOSE:** On December 19, 1999, VA approved Fannie Mae's *Desktop Underwriter for VA (DU)* and the *pmiAURA System for VA*. DU is Fannie Mae's automated mortgage loan underwriting system. Fannie Mae partnered with PMI Mortgage Services in creating DU for VA. The underwriting engine used by DU for VA is identical to the one used by pmiAURA System for VA. The approval followed a pilot project in which we evaluated the underwriting of a sample of loans processed through the system. That evaluation revealed that the system did provide recommendations consistent with VA credit underwriting guidelines.

http://www.vba.va.gov/ro/cleveland/Info_Ltrs_2000/26-00-04.pdf

Processing FHA TOTAL and VA Mortgages



How the FHA TOTAL Mortgage Scorecard Works in Loan Prospector



* Not necessary on first submission but is required on final submission.

Manual Underwriting*

- Able to approve loans not eligible through an AUS (Refer), or
- When a file does receive an accept, and is downgraded by the UW
- More stringent underwriting qualifying criteria (Ratios, assets, etc.)
- Derogatory credit will require letters of explanation from the Veteran (e.g. Collections, Charge-offs, & any late payments within past 2 years)
- Not all lenders offer Manual Underwriting
- Can offer the flexibility to approve a loan that would normally be denied
- Plan accordingly with accurate contract dates for closing

Private Mortgage Insurance

- The VA Loan Program does not require PMI
- When comparing to other loan programs, this provides an immediate savings

Special Circumstances*

- **Bankruptcy – Chapter 7**
- 2 years from after discharge date
 - The following will also contribute towards underwriting decision:
 - Higher credit scores
 - Re-established credit since the bankruptcy
 - Payment Shock
 - Letter of Explanation detailing the situation
- **Bankruptcy – Chapter 13**
 - 2 years from discharge date, or
 - At least one year in the payout plan with no late payments (OX30)
 - Must obtain permission to incur debt from the court (Loan transaction)
 - Manual Underwriting guidelines may apply
- **Foreclosures, Deed-In Lieu of Foreclosure and Short Sales**
 - 2 years after foreclosure date
 - If mortgage included in Chp. 7, - 2 years from foreclosure completion
 - Deed-In Lieu of Foreclosure – 2 years from completion date

- Short Sale – 2 Years from completion date
- Previous losses may impact available entitlement

***Any exceptions to the above published guidelines and including manual underwriting are treated on a case by case scenario and must be discussed with each individual lender.**

Part Two: VA Eligibility, Entitlement, Funding Fee

Who is Eligible?

- Service members and Veterans must not be discharged under conditions other than dishonorable, plus meet the following service requirements (See below)
- This will be needed in order to obtain a Certificate of Eligibility

Status	Qualifying Wartime & Peacetime Periods	Qualifying Active Duty Dates	Minimum Active Duty Service Requirement
Veteran	WWII	9/16/1940 - 7/25/1947	90 total days
	Post-WWII	7/26/1947 - 6/26/1950	181 continuous days
	Korean War	6/27/1950 - 1/31/1955	90 total days
	Post-Korean War	2/1/1955 - 8/4/1964	181 continuous days
	Vietnam War	8/5/1964 - 5/7/1975 *For Veterans who served in the Republic of Vietnam, the beginning date is 2/28/1961	90 total days
	Post-Vietnam War	5/8/1975 - 9/7/1980 *The ending date for officers is 10/16/1981	181 continuous days
	24-month rule	9/8/1980 - 8/1/1990 *The beginning date for officers is 10/17/1981	<ul style="list-style-type: none"> • 24 continuous months, OR • The full period (at least 181 days) for which you were called or ordered to active duty
	Gulf War	8/2/1990 - Present	<ul style="list-style-type: none"> • 24 continuous months, OR • The full period (at least 90 days) for which you were called or ordered to active duty
Currently On Active Duty	Any	Any	90 continuous days
National Guard & Reserve Member	Gulf War	8/2/1990 - Present	90 days of active service
	<ul style="list-style-type: none"> • Six years of service in the Selected Reserve or National Guard, AND <ul style="list-style-type: none"> • Were discharged honorably, OR • Were placed on the retired list, OR • Were transferred to the Standby Reserve or an element of the Ready Reserve other than the Selected Reserve after service characterized as honorable, OR • Continue to serve in the Selected Reserve 		

http://benefits.va.gov/homeloans/purchaseco_eligibility.asp

Additional Eligibility can be available for the following:

- “Certain U.S. citizens who served in the armed forces of a government allied with the United States in World War II”
- “Individuals with service as members in certain organizations, such as Public Health Service officers, cadets at the United States Military, Air Force, or Coast Guard Academy, midshipmen at the United States Naval Academy, officers of National Oceanic & Atmospheric Administration, merchant seaman with World War II service, and others”
- Surviving Spouse under one of the following conditions:
 - ✓ “Unremarried spouse of a Veteran who died while in service or from a service connected disability, or”
 - ✓ “Spouse of a Service member missing in action or a prisoner of war”
 - ✓ Additional eligibility criteria apply for spouse who have since remarried

http://benefits.va.gov/homeloans/purchaseco_eligibility.asp

Certificate of Eligibility Processing

The majority of Certificate of eligibility requests is processed through WebLGY. This is where registered lenders can receive an automated certificate of eligibility (ACE).

WebLGY is a system located in the Veterans Information Portal (VIP).

Additional resources for obtaining a certificate of eligibility are:

- ✓ E-Benefits
- ✓ VA Eligibility Center
- ✓ Walk-in application

What is VA Entitlement?

- **\$36,000 is basic entitlement**
 - This is NOT used as a down payment towards the mortgage
 - It is the amount available that VA will guaranty of the mortgage
 - Available for loan amounts at or below \$144,000 (36K=25% of \$144K)
 - Additional or bonus entitlement up to 25% of the conforming loan limit (currently \$417,000) may be available for loans in excess of \$144,000.
- **Bonus Entitlement**
 - Effective 12/10/04: VA changed the requirements to loan amounts greater than \$144,000 needing bonus entitlement
 - Remaining basic entitlement may be used with bonus entitlement for loan amounts in excess of \$144,000 (Even with no remaining basic entitlement)
 - Examples of when bonus entitlement may be needed:
 1. Loan amount in excess of \$144,000



2. Basic entitlement used due to a previous foreclosure on a VA loan
3. Basic entitlement used due to a previous short sale on a VA loan

➤ **Restoration***

- Veterans can have previously-used entitlement "restored" to purchase another home with a VA loan under the following:
 1. Disposal and Repayment (Property sold and VA loan repaid)
 2. One Time Restoration (VA Loan paid, but property not sold)
 3. Substitution of Entitlement (Assumption)
 4. Refinance (Existing VA loan has been paid in full)

*VA Pamphlet 26-7 Revised Chapter 2: Veteran's Eligibility and Entitlement

VA Funding Fee

What is it for? In most cases, Veterans using the VA Home Loan Guaranty must pay a funding fee. Due to the fact there is NO Down payment or any mortgage insurance to recoup losses, this helps reduce the program's cost to the taxpayers.

- Funding fee is a percentage of the loan amount, financed
- Varies (See table)

Who is exempt?

The following are exempt from the VA funding fee:

- ✓ Veteran is receiving VA compensation for a service-connected disability, or
- ✓ Veteran entitled to receive compensation for a service-connected disability if you did not receive retirement or active duty pay, OR
- ✓ Surviving Spouse (When the Veteran either died in service or from a service-connected disability)
- ✓ If questions consult with the VA, or reference the Certificate of Eligibility (COE)

http://benefits.va.gov/homeloans/purchaseco_loan_fee.asp

Type of Loan	Downpayment	Percentage for First Time Use	Percentage for Subsequent Use
Purchase and Construction Loans	None	2.30%	3.60%
	5% but less than 10%	1.65%	1.65%
	10% or more	1.40%	1.40%
Cash-Out Refinance Loans	n/a	2.30%	3.60%
IRRRLs	n/a	0.50%	0.50%
Loan Assumptions	n/a	0.50%	0.50%

Part Three: Debt Ratios, Residual Income, Credit Qualifying

Debt Ratios

The VA maximum debt ratio is set at 41%

Common income examples include:

- Current employment (Pay Stubs, W2, etc.)
- Self employment (2+ years filed tax returns)
- VA Disability, VA Retirement, Social Security
 - Tax Exempt income may be grossed up

Debt Ratios, Assets, and Reserves

- AUS provides acceptable ratio limits combined with investor overlays
- Reserves may not be required, but can help as compensating factor

Residual Income

What is it? the amount of net income remaining (after deduction of debts and obligations and monthly shelter expenses) to cover family living expenses such as food, health care, clothing, etc.

- Additional debts which must be included in the VA debt ratio are monthly obligations such as credit card payments, installment loans, leases, alimony payments, and child support.
- Child care expenses for all children 12 and under, but these can be excluded under certain circumstances.
- Utility payments, cell phone, food and other daily essentials do not count in these calculations.

VA Residual Income Calculation Charts

Table of Residual Incomes by Region For loan amounts of \$79,999 and below				
Family Size	Northeast	Midwest	South	West
1	\$390	\$382	\$382	\$425
2	\$654	\$641	\$641	\$713
3	\$788	\$772	\$772	\$859
4	\$888	\$868	\$868	\$967
5	\$921	\$902	\$902	\$1,004
over 5	Add \$75 for each additional member up to a family of 7.			

Table of Residual Incomes by Region For loan amounts of \$80,000 and above				
Family Size	Northeast	Midwest	South	West
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1,025	\$1,003	\$1,003	\$1,117
5	\$1,062	\$1,039	\$1,039	\$1,158
over 5	Add \$80 for each additional member up to a family of 7.			

Credit Qualifying

- No published minimum credit scores, qualifying based on lender criteria
- Realistic financing options can be available in the following credit ranges:
 - 579 and below can be possible, but with limited lender participation
 - 580 to 619
 - 620 to 639
 - 640 and above

(This is not a published score criteria for any specific lender)
- No Credit Scores: In these cases non-traditional credit can be used to establish timely payment history over a 12 month period.
- Non-Traditional credit examples utility, phone, cable, auto insurance, etc.

Non-Traditional credit cannot offset poor credit, and depending on underwriting the Veteran may need to verify 3 to 4 alternative trade lines.

**** TRADELINE SUPPLEMENT**

- 1) T Mobile
- 2) Duke Energy
- 3) BRIGHT HOUSE

CREDIT HISTORY

E C O A	Creditor Name Account Number	Acct Type	Date Reviewed	Date Opened DLA	High Credit Terms	Months Reviewed	Balance Amt Payment Amt	Past Due Amt	Historical 30 60 90
1. I	BRIGHT HOUSE	I1	09/2015	04/2008 08/2015	149 MTH149	87	149 149		0 0 0
	Type of Loan: UTILITY								
	Comments: VERIFIED PER RAICHELLE								
2. I	Duke Energy	O1	09/2015	05/2005 08/2015	269 MTH269	99	0 269		0 0 0
	Type of Loan: UTILITY COMPANY								
	Comments: VERIFIED PER DEESHA								
3. I	T Mobile	O1	09/2015	10/2005 08/2015	154 MTH154	99	0 154		0 0 0
	Type of Loan: CELLULAR PHONE								
	Comments: VERIFIED PER MICHELLE								

Waiting Periods

VA waiting periods for adverse credit are as follows:

- Chapter 7 Bankruptcy – 2 years from the discharge date
- Chapter 13 Bankruptcy – 2 years from discharge date OR at least 1 year in repayment plan with permission to incur new debt from the trustee
- Foreclosure, DIL, and Short Sale – 2 years from deed transfer date
 - Previous VA entitlement losses could impact ability to get another VA loan (Need to check for remaining entitlement)

CAIVRS (Credit Alert Interactive Voice Response System)

- **What is CAIVRS?**
- “CAIVRS is a Federal government database of delinquent Federal debtors that allows federal agencies to reduce the risk to federal loan and loan guarantee programs. CAIVRS alerts participating Federal lending agencies when an applicant for credit benefits, or for a position of trust in support of the administration of a Federal credit program, has a Federal lien, judgment or a Federal loan that is currently in default or foreclosure, or has had a claim paid by a reporting agency.”
- **What does it do?**
- “CAIVRS allows authorized employees of participating Federal agencies to access a database of delinquent Federal borrowers for the purpose of pre-screening direct loan applicants for credit worthiness, and permits approved private lenders acting on the Governments behalf to access the delinquent borrower database for the purpose of pre-screening the credit worthiness of applicants for federally guaranteed loans.”
- http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/sys/caivrs/caivrs_faqs
- “If the borrower, as revealed by public records, credit information, or HUD’s Credit Alert Interactive Voice Response System (CAIVRS), is presently delinquent on any Federal debt (e.g., VA-guaranteed mortgage, Title I loan, Federal student loan, Small Business Administration loan, delinquent Federal taxes) or has a lien, including taxes, placed against his

or her property for a debt owed to the U.S., the borrower is *not* eligible until the delinquent account is brought current, paid, otherwise satisfied, or a satisfactory repayment plan is made between the borrower and the Federal agency owed and is verified in writing. Tax liens may remain unpaid provided the lien holder subordinates the tax lien to the FHA-insured mortgage. If any regular payments are to be made, they must be included in the qualifying ratios. “

- http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_20457.doc

Part Four: 100% Financing, Seller Paid Costs, VA Condos, Private Roads

What does 100% financing really mean?

- 100% financing = No Down Payment / Closing costs are treated separately
- With the exception of the VA funding fee which is financed (See below)
- It is common for homebuyers to assume that 100% finance = No out of pocket
- Seller concessions can be negotiated to assist the Veteran with these costs

Seller Concessions

- Seller may pay up to 4% of the purchase price toward any of the following:
 - Pre-paid expenses (Interest, escrows, homeowner's insurance premium)
 - VA Funding Fee
 - Buydown fees
 - Payoff borrower liabilities which include:
 - Collections, Judgments, or Credit Card balances
- Seller may pay remaining customary closing costs & discount points with **NO** limit

Termite (WDO) Inspections

Can the veteran pay for the termite inspection?

- While the VA does **not** allow the veteran to pay for termite inspections in most states, exceptions have been made for Florida, Alabama, and Texas
- Otherwise, termite inspections can be paid by a party other than the veteran, such as:
 - Seller
 - Lender
 - Realtor

VA Approved Condos

How do you get a condo VA Approved?

Documents needed from condo association:

- ✓ Declaration of Condominium including any amendments
- ✓ Bylaws of the Homeowners' Association
- ✓ Articles of Incorporation
- ✓ Rules and Regulations

Private Roads

Private Road Maintenance Agreements:

- **VA** – Required
- **Fannie Mae** – Required
- **Freddie Mac** – NOT required
- **FHA** – NOT required
- **USDA** – NOT Required

Summary Points

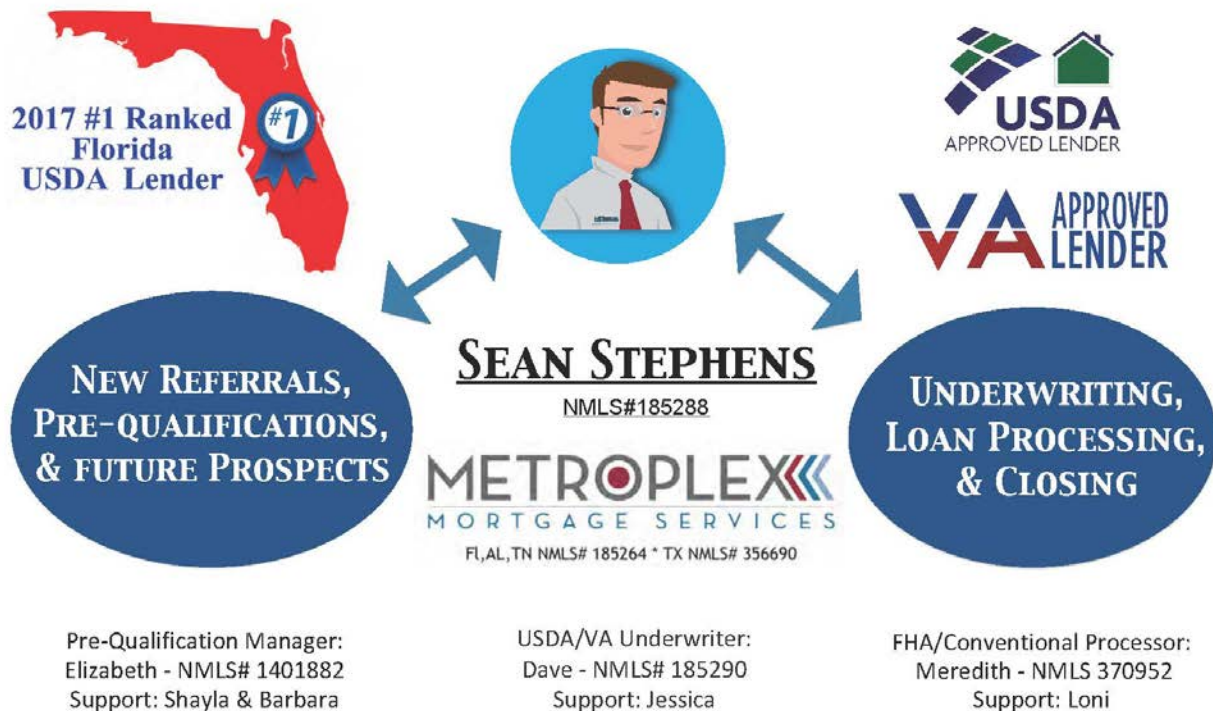
- The VA loan provides an opportunity to Veterans due to:
 - 100% Financing

- NO PMI
- Flexible credit criteria
- Provides an alternative to conventional loan qualifying

Helpful Reminders

- 100% financing does not relate to closing costs (Besides Funding Fee)
- Funding fee is the only financeable closing cost
- Seller concessions are permitted
- The VA does not issue loans, but provides a guaranty to private lenders.
- Contrary to popular belief, there are no maximum published VA loan limits.

Thank you for attending! Feel free to call or email with any questions, and our trained team of professionals will be happy to advise!



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Support: Loni

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You can email SeanS@MPLX.org if you have a buyer you would like to refer or a scenario that needs review – We are always monitoring our email inboxes!

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