Debunking VA Myths:

Why You Should Work with a Veteran

AIME
ASSOCIATION OF INDEPENDENT MORTGAGE EXPERTS

VETTED VA
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Methodology

This white paper aims to uncover facts about VA lending through data and, to the extent possible, clarify and dispel some of the myths about the VA loan. The paper is a collaboration of Vetted VA, Polygon Research, and The Association of Independent Mortgage Experts (AIME). Our approach involves:

1. Extensive data analysis of key data sets that inform our understanding of the VA loan described below, and

2. Extensive use of the VA lending expertise of Vetted VA loan originators, many of whom are Veterans themselves.

Polygon Research maintains a single source of truth for all of its apps in its cloud-based technology stack and performs its analysis predominantly using this source of information, presenting the findings in tables and charts with the corresponding commentary. Vetted VA and its members added the domain expertise from a mortgage origination perspective. The Association of Independent Mortgage Experts (AIME) edited and published the report.

Note on Closing Costs

We used data from HMDA LAR (*see description of the following pages*) to compare VA loan costs to closing costs of other loan types. These closing costs are the sum of all costs that the borrower pays to close the loan. There are several components of the loan closing costs disclosed via the HMDA data. From the Closing Disclosure, these are:

Box A: Originations charges - application, underwriting; and Discount points.

Box D: Total loan costs, which includes costs for services that the borrower did not shop for (e.g. Appraisal fee, Credit Report fee, VA Funding fee, Flood, tax research, etc.) and costs for services that the borrower shopped for (e.g. Survey fee, Title fees - title closing fee, lender's title insurance, title documentation, title examination fee, etc.).

Lender Credits in Box J.

Excluded from the closing costs are costs such as recording fees, prepayments for home insurance and mortgage insurance premiums, prepaid interest, prepaid property taxes, escrow account payment, HOA fees, and owner's title insurance.

Data

The data describing VA lending dynamics and the VA market comes from several different sources. Each data set has its own limitations, but together these information sources and the analyses stemming from them contribute to a well-rounded, quantitative picture of the VA loan.

Home Mortgage Disclosure Act (HMDA): The main data source used to analyze various aspects of VA originations in comparison to other loan types is the HMDA LAR, which contains loan-level information about financial institutions' lending activity for loans secured by a dwelling.

HMDA is released annually on the 31st of March. Polygon Research ingests and updates the dataset quarterly and presents an interactive dashboard with 5-years of information comprising over 90 million loan-level transactions. The HMDA data gives an in-depth view into U.S. mortgage market activity, and we used it extensively for review of VA lending in the context of other loan types and geography. HMDA contains valuable data points around the closing costs the borrower pays (origination charges, discount points, closing costs, lender credits), the interest rate, and the rate spread.

Polygon Research made this data usable in its app, HMDAVision, which was used to distill the analysis for the tables and charts. HMDA LAR gives the fullest and deepest picture of U.S. mortgage dynamics from application all the way through to sale and the secondary market. At the same time, it is limited in that the CFPB does not disclose the credit score, the data is annual, we do not have a more granular date stamp, and the information does not distinguish between existing and new homes.

Current Population Survey (CPS) Annual Socio-Economic Supplement (ASEC): CPS is a monthly survey of about 70,000 U.S. households. Information is gathered on each member of every household. Statistical techniques are used to extrapolate the results; the outcome is microdata weighted to represent the entire (civilian non-institutional) U.S. Key Dimensions of interest in the data are Race, Ethnicity, Sex, Age, Homeownership Status, Veteran Status, Education, Income, Industry, Occupation, Employment Status, Household Type, and Relocation. The demographics data about the size of the VA population, especially the information points around Veterans with a service-related disability, comes from the CPS ASEC.

The most recent available data set is from March 2021. Polygon Research took the microdata (PUMS) data for five years of ASEC and monthly CPS data and activated demographics insights in its CPSVision app. The data is an excellent gauge at the national level, state, and large MSA, but we advise our users to be careful with smaller geographies.

American Community Survey (1-Year): ACS is an annual survey that goes out to about 3.5 million households annually. Polygon Research models the microdata in its app, CensusVision. The ACS universe includes both the civilian and military population in households and in group quarters (that is, the resident population). The group quarters population consists of the institutionalized (such as people in correctional institutions or nursing homes) and the non-institutionalized (most of whom are in college dormitories). Key Dimensions of interest in the data are Race, Ethnicity, Sex, Age, Homeownership Status, Veteran Status, Education, Income, Industry, Occupation, Employment Status, Household Type, and Relocation. The analysis can be performed from the state level to “neighborhood” (PUMA) level. We chose to include analysis from the ACS in order to make comparisons between rent payments and mortgage payments for Veterans and in the context of other populations and circumstances. The microdata does not allow analysis at the census tract level in order to preserve the anonymity of the respondents; for this, we use summarized 5YR ACS data available in HMDAVision.

Federal Reserve Board, Survey of Consumer Finances: Polygon tabulated the most recent SCF, considered the national gold standard for benchmarking household wealth. This is a triennial survey administered by the Board of Governors of the Federal Reserve System; the most current available year is 2019. The survey measures the net worth of American Primary Economic Units (households/families), with breakdown by Assets and Debts.

Additionally, the survey goes out to about 5,800 families with statistical techniques to extrapolate to the entire U.S. Hundreds of questions are asked; the result is microdata weighted to represent the entire U.S. We included this information in our analysis because Veteran status is among the key dimensions (Race and Ethnicity; Age; Homeownership Status; Veteran Status; Education; Employment Status), and in this way, we could analyze and compare the wealth of Veterans/homeowners to non-Veterans. Moreover, among the thousands of data points in the SCF, there are a few that we analyzed to see the loan type preference pertaining to VA loans. Finally, the SCF is considered a leading indicator of household wealth in the U.S. All SCF analysis on veterans and non-veterans in this analysis was based on principal residence of house/townhouse/apartment/other, which excludes mobile homes, ranches, and farms.

What is a VA Loan?

The VA home loan is a benefit earned by Active Duty Service Members, Veterans, National Guard members, Reserve members, and eligible surviving spouses.

In 1944, Congress passed the Serviceman's Readjustment Act, also known as the GI Bill. The Department of Veterans Affairs Loan Guaranty Program (VA loan) was established as part of the bill. Today, the VA home loan still exists as a financing option for qualified Active Duty Service Members, Veterans, National Guard members, Reserve members, and eligible surviving spouses for their purchase or refinancing of a home.

The Top VA Loan Myths

There are several misconceptions and myths about the VA loan, its use, benefits, and drawbacks in recent years.

In this detailed white paper, Vetted VA and Polygon Research examine the VA loan market from a well updated, federal underwriting perspective to address some of these misconceptions, thereby educating mortgage and real estate professionals.

This document explores seven common myths about the VA home loan, how Veterans perceive it, how it is used, and its role in the overall mission to improve homeownership.

The most common myths regarding VA loans include:

1. VA loans are denied at a higher rate (risk).

2. VA loans are expensive for Veterans.

3. People with weak financial backgrounds use VA loans and other “no down payment” mortgages to buy homes.

4. FHA or Conventional loans are better for Veterans than VA loans.

5. VA loan appraisals are slow to process and usually come back with low values.

6. Sellers have to pay all closing costs.

7. VA loans can only be used once.

Myth #1: VA loans are denied at a higher rate.

False!

According to anecdotes from many sources, VA loans are harder to process.

The Lowest Denial Rate

We used Polygon Research's HMDAVision[1] to comb through the 2020 HMDA LAR data to gather granular insights into loan pull-through, the loan life cycle of every loan, and lender by country, state, county, and census tract, as well as borrower demographics and loan attributes. As shown in the table below, VA loan applications are denied by lenders 7.1% of the time, which is the lowest denial rate among all loan types.

Denials 2020

Loan Type	Applications	Denials	Denials Rate of Applications
Totals	**7,202,600**	**741,636**	**10.3%**
FHA-insured	1,228,079	141,020	11.5%
Conventional	5,198,991	542,924	10.4%
FSA/RHS	172,762	15,067	8.7%
VA-guaranteed	602,768	42,625	7.1%

Source: HMDAVision, 2020 HMDA LAR Data Purchase, 1-4 Units

VA Loan Origination Rates

In the following chart origination rate is the percentage of the loan applications taken in total.

As shown below, VA loans have an origination rate of 71.9%, which is 4.3 points higher than Conventional Loans and 4.5 percentage points higher than FHA Loans. Below is a breakdown of loan applications (applications) divided by loan originators (originated).

Originations 2020

Loan Type	Originations	Applications	Originations Rate of Applications
Totals	**4,899,286**	**7,202,600**	**68.0%**
FSA/RHS	125,563	172,762	72.7%
VA-guaranteed	433,535	602,768	71.9%
Conventional	3,512,492	5,198,991	67.6%
FHA-insured	827,696	1,228,079	67.4%

Source: HMDAVision, 2020 HMDA LAR Data, Purchase, 1-4 Units

Myth #2: VA loans are expensive for Veterans.

False!

VA policy aims to help Veterans utilize their home loan benefits. Therefore, VA regulations limit the fees that the Service Members and Veterans can pay to obtain a loan (see Chapter 8: Borrower Fees and Charges and the VA Funding Fee). According to VA lending guidelines, "*lenders must strictly adhere to the limitations on borrower-paid fees and charges when making VA loans*"[2].

The Truth Regarding VA Loan Pricing

To get insight into pricing, we used the publicly disclosed data modeled in HMDAVision. In Table 3, we compare the pricing of the four major loan types by a variety of dimensions, including:

- CLTV
- Points
- Credits
- Originations charges
- Interest rate
- Rate spread, and
- Closing costs (typically the costs shown on the Closing Disclosure - *see Note On Closing Costs, page 3*.)

Below, we highlight the closing costs and interest rate.

Comparative Pricing Analysis

Home Purchase

Loan Type	Total Loan Production (#)	Median Loan Size	Median CLTV	Median Interest Rate	Median Orig Charges	Median Orig Charges BPS	Median Closing Costs	Median Closing Costs BPS	Median Rate Spread
Totals	**4,899,286**	**$245,000**	**90.30%**	**3.15%**	**$1,290**	**54**	**$4,594**	**195**	**0.27**
FHA-insured	827,696	$225,000	96.50%	3.25%	$1,545	79	$8,005	371	1.10
FSA/RHS	125,563	$165,000	100.00%	3.13%	$1,295	83	$4,992	307	0.48
VA-guaranteed	433,535	$285,000	100.00%	3.00%	$575	19	$6,204	246	-0.07
Conventional	3,512,492	$255,000	80.00%	3.25%	$1,290	52	$3,940	154	0.17

Source: HMDAVision, 2020 HMDA LAR Data, Purchase, 1-4 Units

The sum of all costs of the loan is comprised of discretionary and non-discretionary items. Looking first at the discretionary items, even though the VA purchase loan has 100% LTV, it still has the lowest origination charges(including appraisal and underwriting fees), the lowest interest rate, and the lowest rate spread. Regarding the non-discretionary items, see the discussion of the VA funding fee below.

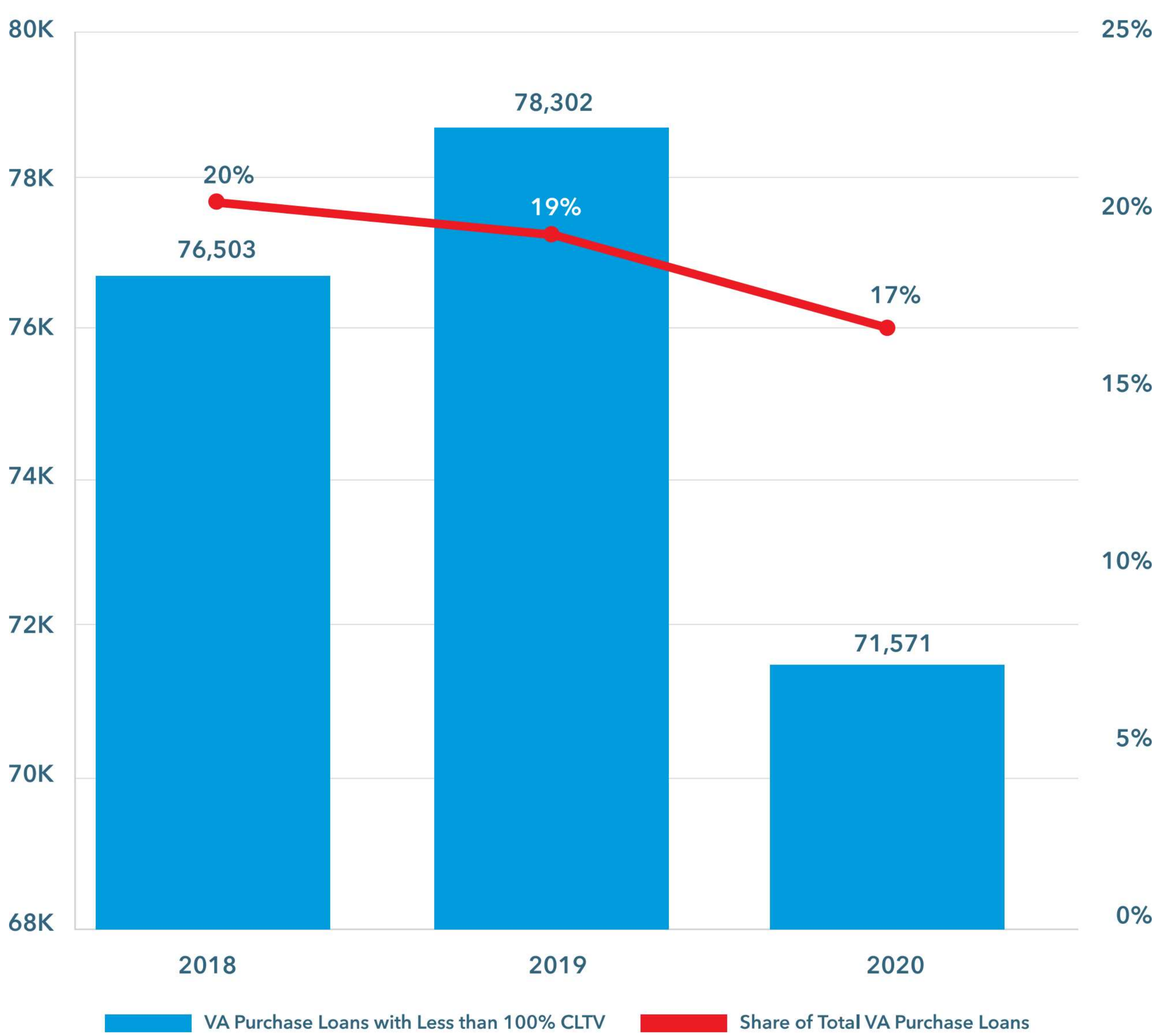
Do VA Loans Require 100% LTV?

Veterans are not required to take 100% LTV loans, but many do because their monthly payments on 100% financing loans can be affordable (and are absent PMI). A Veteran who took out the median size conventional loan shown in the table above would have paid on average a down payment of $66,250 for a loan with a likelier higher interest rate.

Due to the timelines of Veteran or Active Duty borrowers for homeownership, as well as competing investment strategies for the cash that would otherwise go into a down payment (including but not limited to the support of residual income increasing borrowing stability), the size of the down payment can be an important factor in this scenario.

In fact, over the last 3 years, the share of VA purchase loans on 1-4 units has been between 17% and 20% as shown in the figure below.

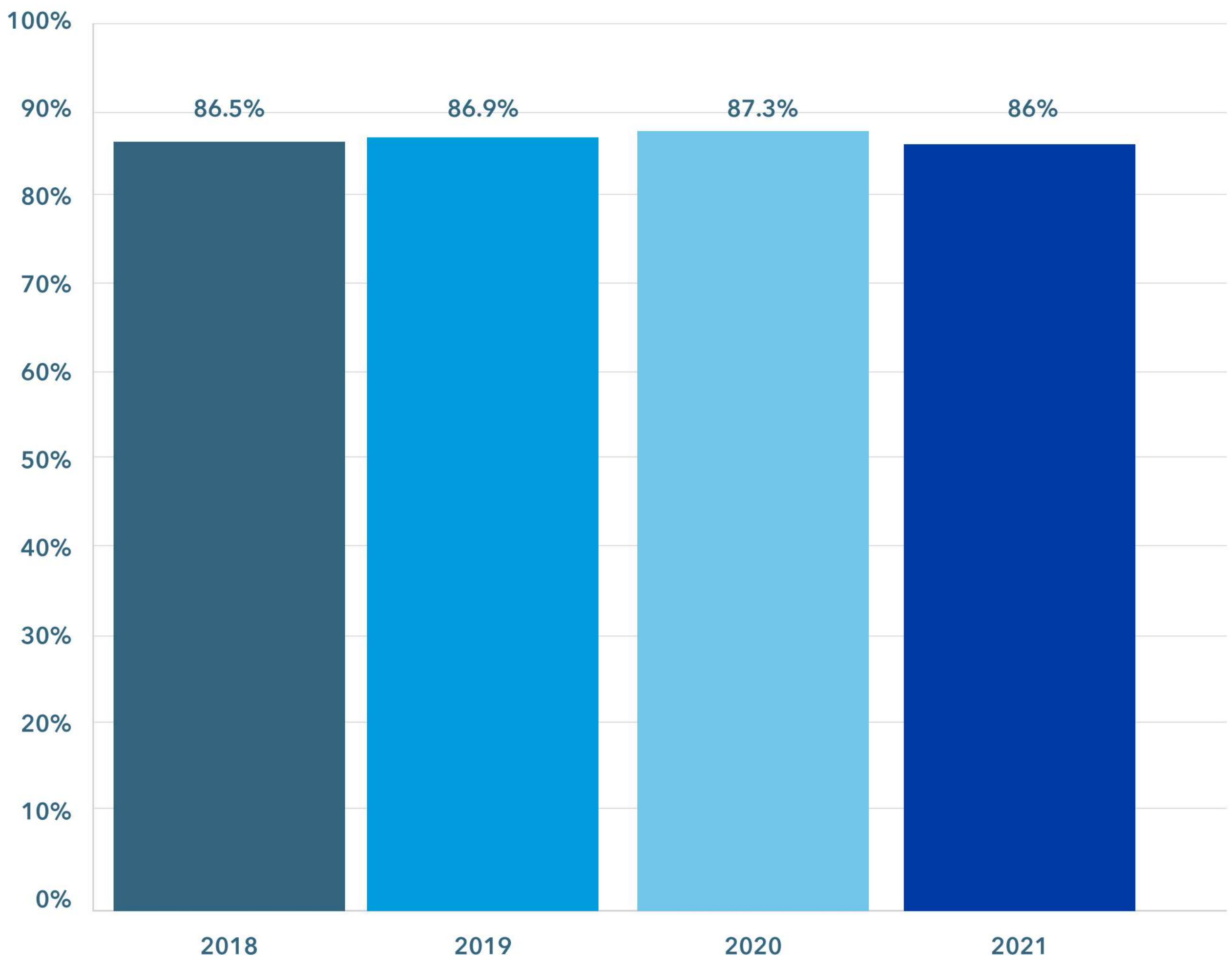
VA Purchase Loans with Less than 100% CLTV



Source: Polygon Research, HMDAVision, VA, Purchase, 1-4 units

In 2021, the share of VA purchase loans with down payments equaling less than 100% CLTV was 18% of all VA purchase loans originated in the trailing 12 months (Source: Polygon Research: GovLoansVision, Ginnie Mae loan-level disclosure purchase, 1-4 units, data updated through January 2022).

Average CLTV of VA Purchase Loans with Less than 100% CLTV



Source: Polygon Research, HMDAVision (2018-2020) and GovLoansVision (2021 trailing 12 months), VA, Purchase, 1-4 units

What is Included in VA Loan Closing Costs?

Closing costs are the sum of all fees that must be paid to close the loan.

VA loan closing costs include discretionary items such as origination charges, discount points, and fees, and non-discretionary items such as recording fees, title insurance, and the VA funding fee when it is not waived[3].

Note: Borrowers can negotiate with the seller, so they pay some or all of their closing costs if they'd prefer to keep more money in their pocket. VA loans allow sellers to pay 4% of the loan amount as seller-paid costs, but lender fees are not covered. If any judgments or credit balances prevent a borrower from qualifying for their loan, the seller may pay the VA funding fee, prepaid property taxes, and insurance, plus discount points.

VA Loan Funding Fee

Funding fees are non-discretionary, one-time, upfront payments made by Veterans to the VA. The VA funding fee helps offset the costs of the VA loan program while also ensuring that borrowers continue to receive all the great benefits associated with VA loans, such as no mortgage insurance or down payment requirements.

It is important to note that the FHA loan also has an upfront fee of 1.75% of the loan amount for PMI (called UFMIP) that is paid at closing, whereas the VA Funding Fee is 2.3% for first-time use (or as applied with multi-use). Both the VA Funding Fee and the UFMIP for FHA are often added to the loan but can also be paid in full as a line item closing cost. However, a great differentiating factor is that a Veteran with a disability rating of 10% or over will have their funding fee waived for their VA Guaranteed loan.

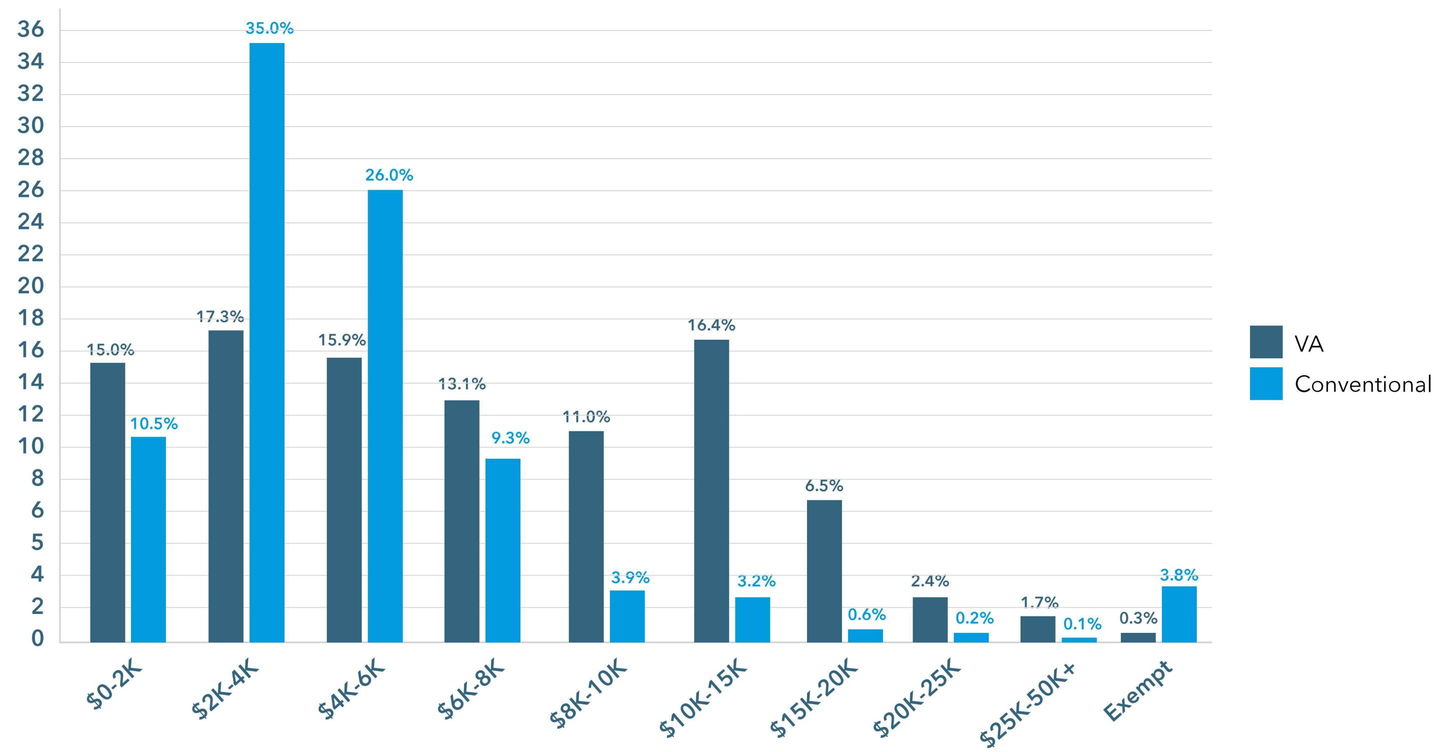
In order to get a better sense of these costs, we compared closing costs for conventional-conforming purchase mortgages with the closing costs for VA purchase mortgages.

VA Loans Sometimes Offer Lower Closing Costs Than Conventional

As we've just seen, VA loans win hands down on discretionary charges. The non-discretionary funding fee is the biggest variable in the remaining cost of the loan. It is important to understand that the funding fee is waived for VA borrowers receiving compensation from the VA for service-related disabilities and surviving spouses. Net, VA loans frequently beat other loan types in total closing costs. *(See chart on the following page.)*

Closing Costs Distribution

for VA and Conventional Purchase Mortgages, 1-4 Units

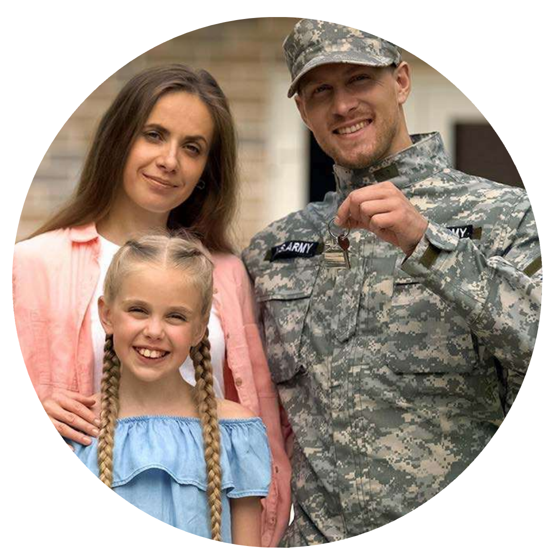


Source: HMDAVision, 2020 HMDA LAR Data, Purchase, 1-4 Units

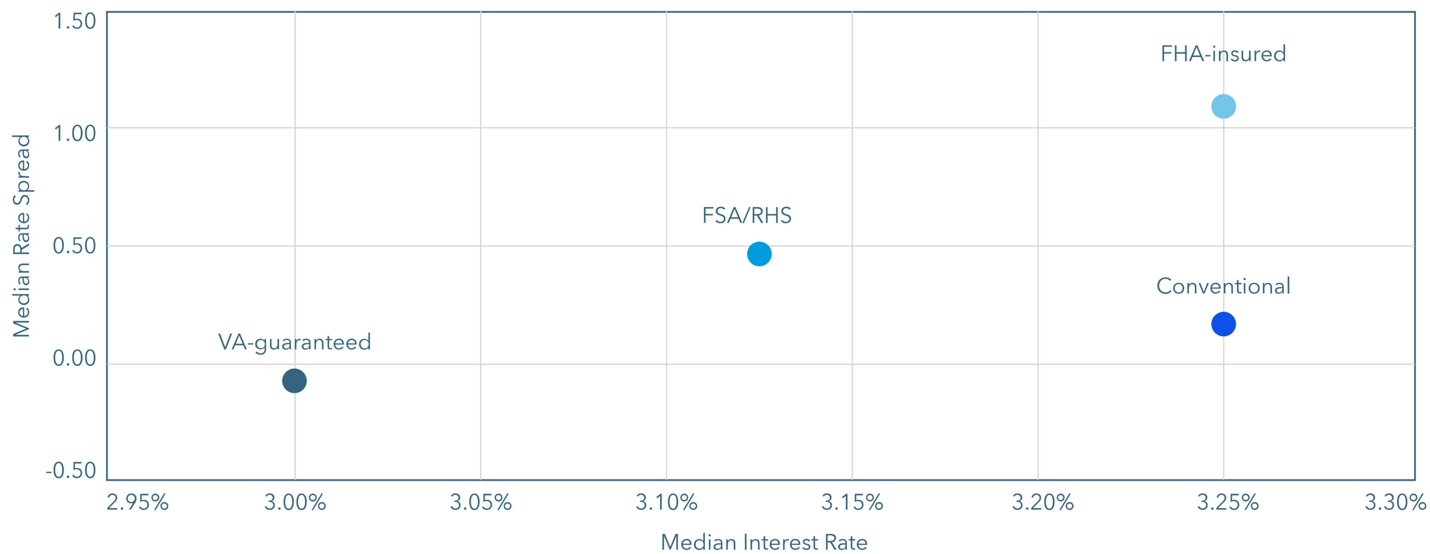
Closing costs also vary greatly by location. VA borrowers in Arkansas, for example, pay the lowest closing costs ($3,989). VA borrowers pay the highest closing costs in D.C., Hawaii, and the islands - upward of $14k.

Interest Rates and Rate Spread[4]

From the HMDA LAR data, we observe that VA loans have the lowest interest rate and the lowest rate spread. Rate spread is the difference between average rates offered to VA borrowers and the average prime offer rate offered for similar loans.



Pricing Statistics by Loan Type



Source: HMDAVision, 2020 HMDA LAR Data, Purchase, 1-4 Units

Lenders and Veterans negotiate the interest rate and points. The VA pamphlet states the Veteran and the seller can negotiate for the seller to pay all or some of the points, and the points may not be financed in the loan except with Interest Rate Reduction Refinancing Loans (IRRRLs). In addition, from the VA pamphlet, the seller, lender, or *any other party* may pay fees and charges, including discount points, on behalf of the borrower. This makes the VA loan one of the strongest options for covering any and all closing costs.

No Private Mortgage Insurance on Any VA Loans

One of the many advantages of a VA loan is that the Veteran does not have to pay private mortgage insurance (PMI) (e.g., in the case of a conventional loan with a CLTV above 80%) or mortgage insurance premiums (e.g., in the case of an FHA loan). An important benefit of a VA loan is that it helps keep the monthly payments low for borrowers. Typically, PMI costs 0.5 - 1% of a loan amount per year, which can add up quickly.

Myth #3: People with weak financial backgrounds use VA loans and other "no down payment" mortgages to buy homes.

False!

Veterans don't use VA loans because they have weak financial backgrounds. We compared the net worth of Veterans who used VA loans to purchase/own a home to Veterans who rented, using the most recent Survey of Consumer Finances (SCF), a triennial survey of U.S. families.

We find that Veterans who own their homes have a significantly higher net worth - 18x higher - than Veterans who rent their homes. Moreover, Veterans who rent their homes are older than the Veterans who own their homes, which is the opposite of the general population.

Source: 2019 SCF Data, Tabulated by Polygon Research. VA/Other refers to VA loans and other non-FHA government loans. All SCF analysis on Veterans and non-Veterans in this analysis was based on principal residence of house/townhouse/apartment/other, which excludes mobile homes, ranches, and farms.

Further, in the table below, we used the American Community Survey (ACS)[5] to show that Veterans who own their home with a mortgage are paying a smaller percentage of their income than Veterans who rent.

Housing Affordability Analysis 2019

Rent and Mortgage Ratio are always the median value

Generation	Households	Rent Ratio	Mortgage Ratio	Rent-Mortgage Ratio Delta	Median HH Income Renters (Cash)	Median HH Income Owners (Mortgage)
Totals	**7,059,271**	**26.86%**	**20.07%**	**6.8%**	**$45,100**	**$90,700**
Baby Boomers	3,098,092	28.27%	20.32%	8.0%	$36,600	$86,600
Gen X	1,722,414	22.20%	17.52%	4.7%	$60,000	$118,000
Silent Generation	1,197,784	31.30%	24.70%	6.6%	$35,000	$65,800
Millennials	919,659	25.39%	20.44%	5.0%	$55,000	$94,000
Greatest Generation	100,445	35.91%	31.97%	3.9%	$38,050	$52,800
Gen Z	20,877	31.35%	19.94%	11.4%	$40,000	$67,700

Source: CensusVision, 2019 ACS 1-Year PUMS Data; the table above includes only Veterans (i.e. excludes those currently on Active Duty or training for the National Guard) who own their homes with mortgage or rent their homes with cash rent.

Among Veterans, the youngest (Generation Z) and the oldest (Silent Generation and Greatest Generation) pay the highest rent payments as a percent of their household income.

With Veteran-homeowners with a VA loan having 18x higher net worth than Veteran-renters, and Veteran-homeowners with a mortgage-paying only 20 percent of household income on mortgage payments compared to Veteran-renters who pay about 27 percent, it is reasonable to conclude that Veterans are better off purchasing a home than renting. **VA loans allow Veterans to own their homes, and the whole loan can be financed without private mortgage insurance.**

Myth #4: FHA or Conventional loans are better for Veterans than VA loans.

False!

This depends on each individual Veteran's situation, and we will try to address it as objectively as possible.

Top Benefits of VA Loans

To answer why borrowers choose VA loans, let's look at the most recent Survey of Consumer Finances. Scoping the survey responses **to those where either the respondent or his or her spouse had military service**, Veterans' predominant reasons given for choosing VA[6] loans were:

1. Interest rate
2. Special features for first-time homebuyers
3. Amount of the down payment

Veterans are provided with a lower interest rate through the VA IRRRL program. VA IRRRL recipients also have the ability to skip the appraisal and proof of employment processes in most cases, do not need to verify debt-to-income or have a minimum FICO score check, can change loan terms, defer mortgage payments for two months, and can possibly get a faster closing.

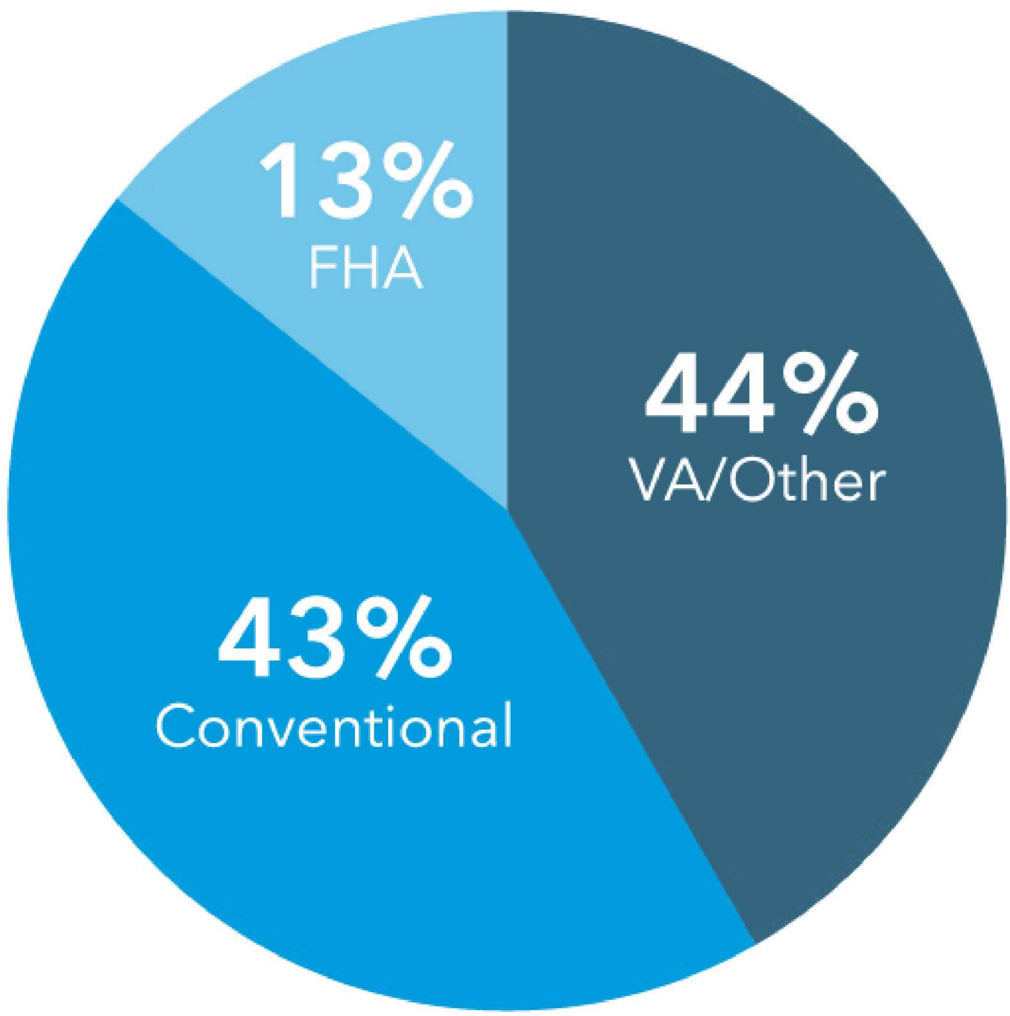
VA Loans to Buy a Home

At the same time, among homeowners owning free and clear, Veterans outstrip non-Veterans 35% to 23%, which calls into focus the fact that many Veterans have already used the VA loan as a path to full ownership.

All this considered the following pie chart shows that even though eligible, not all Veterans use the VA loan and are able to qualify for different mortgage tools as they choose.

Veteran Homeowners' Choice of Mortgage Finance

Percent of All Mortgages by Veterans



Source: 2019 SCF Data, Tabulated by Polygon Research. All SCF analysis on Veterans and non-Veterans in this analysis was based on principal residence of house/townhouse/apartment/other, which excludes mobile homes, ranches, and farms.

Minority Borrowers and VA Loans

Next, let's examine minority borrowers. Based on the 2020 HMDA LAR Data, we examined the origination rate for minority borrowers by type of loan.

VA eligible minority borrowers are well served by their earned VA benefit.

Originations to Minority Borrowers by Loan Type 2020

Loan Type	Originations	Applications	Originations Rate of Applications
Totals	**1,347,158**	**2,161,676**	**62.3%**
VA-guaranteed	128,298	186,557	68.8%
FSA/RHS	24,077	35,443	67.9%
FHA-insured	356,441	556,277	64.1%
Conventional	838,342	1,383,399	60.6%

Source: HMDAVision, 2020 HMDA LAR Data, Purchase, 1-4 Units

Minority Veterans Benefit from VA Loans

Homeownership is an opportunity to create generational wealth and close the wealth gap between minority and non-minority households.

In fact, the homeownership gap is only 5.8 percentage points in the Veteran community between minority and non-minority homeowners who recently moved (based on 2019 ACS analysis via CensusVision), vs. 10.9 percentage points in the population with no military service between minority and non-minority homeowners who recently moved.

VA Loan Lenders and Final Costs

Finally, we come to the question about the role of the lender in making sure that the VA loan is the right fit for the borrower. VA loans are not all the same because each lender adds its own requirements (overlays) to the program. Up to this point, we have looked at the VA lending on average, nationally, using measures of central tendency and histograms.

To examine it more closely, we zeroed in on one state - Arkansas - and isolated different loan factors to get a better apples-to-apples comparison. Arkansas has the lowest median closing costs (just under $4k), so we looked at all 198 lenders in the state who funded VA purchase loans in 2020[7].

With the caveat that the publicly disclosed HMDA data does not include the borrower's FICO, we analyzed the distribution of VA closing costs, interest rates, and other metrics in 2020 on VA loans for 1-4 units[8].

Depending on the lender, its strategy, its loan officer workforce, and many other intangibles, we saw a great range of closing costs by VA lenders – from $0 to $18,838. The same was true for the distribution of VA loan interest rates in this state – from 2.25% to 4.63%; for loan size – from $85k to $515k, and so on.

We then limited the geographic scope to one MSA, Little Rock, and still saw the same pattern of wide variability of pricing by VA lenders.

Next, we chose one DTI range, 36%-43%, and the pattern of a wide range of closing costs by VA Lender – from $0 to $18,225 – persisted.

Finally, we further limited the analysis to the above DTI range of 36%-43% to a specific loan amount range, $200,000-$250,00, only to get a similar wide range of closing costs by VA lenders – from $0 to $10,430; of interest rates – from 2.38% to 4.50%; and of rate spreads – from -0.57 to 1.55.

This data is evidence of something that has happened in the real world, and we have done our best to understand the world of VA lending through data analysis. But there is so much more that happens between a VA lender and a borrower – conversations and negotiations, the exchange of emails, documents, and loan offers, which are not captured in the data, and therefore, cannot be analyzed.

The existing data on VA lending is useful in that it allows us to see the results of what has happened. What we see is that VA lenders charge Veterans very different rates on their purchase mortgages. Knowing the ins and outs of VA lending is essential, and lenders should continue to improve their understanding of the Veteran community.

Educating and coaching individual loan officers will ensure that Veterans receive a good VA loan offer and that VA loan applications are processed as fast as conventional loans.

Myth #5: VA loan appraisals are slow to process and usually come back with low values.

False!

On average, VA loan appraisals take seven to ten days to complete, which is typical of both Conventional and FHA loans.

VA Loan Appraisals and the Tidewater Initiative

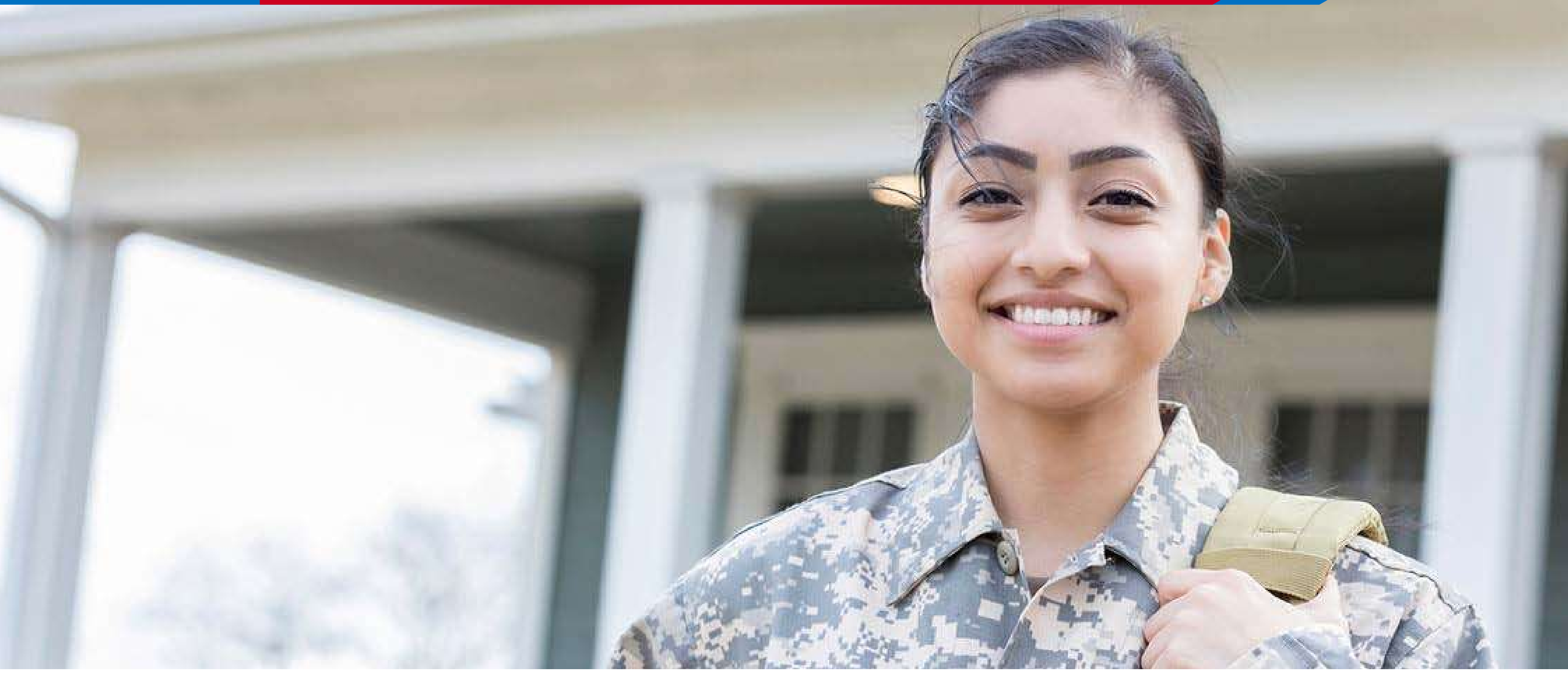
In cases where the appraised value of a home falls below the contract purchase price agreed to between buyer and seller, The Tidewater Initiative (or Tidewater for short) is used.

A home might fall through if an appraised value is too low for the seller, and the Veteran buyer would be left out of luck. As a result of Tidewater, buyers and sellers are given the opportunity to present their case for the purchase price and appeal if needed.

Steps of the Tidewater Process

The Tidewater appeals process consists of the following steps:

- The VA Loan buyer and seller reach a price agreement;
- An agreement is presented to the lender by the buyer;
- A VA Appraisal is ordered by the lender, completed by a VA Appraiser;
- VA Appraisers can invoke the Tidewater Initiative;
- The point of contact notifies the parties involved in the sale;
- There is a two-day window for parties involved to provide information;
- Information is reviewed, and a decision is made by the Appraiser.



Reconsideration of Value

If the borrower believes the VA Appraiser made a mistake, a case can be made through a Reconsideration of Value (ROV). Any errors can be addressed; for example, three comparables in the neighborhood where the property is located that were not included in the initial appraisal can be submitted. In addition, it can be argued that the comparables used in the initial appraisal are not the same size, age, or condition.

The ROV requires a letter from the borrower stating why the appraised value should be increased. So the borrower is given two chances to dispute and address the value, unlike Conventional and FHA loans.

Myth #6: Sellers have to pay all closing costs.

False!

Origination charges, appraisal fees, title charges, discount points, credit reports, and well and septic inspection fees need to be paid by the borrower at closing.

With exceptions, the Wood Destroying Insect Report (WDIR) fees are the only costs that the Veteran cannot pay, but the real estate agent may be able to cover them. Other state-specific deviations can be found on the State Fees and Charges Deviations Change Sheet.

In some states, the Veteran is permitted to pay for the required pest report and the cost of the Section 1 repair. This may not seem advantageous to the Veteran, but it can be a selling point to entice the listing side and negotiation piece to strengthen the borrower's offering power in a purchase scenario.

Myth #7: VA loans can only be used once.

False!

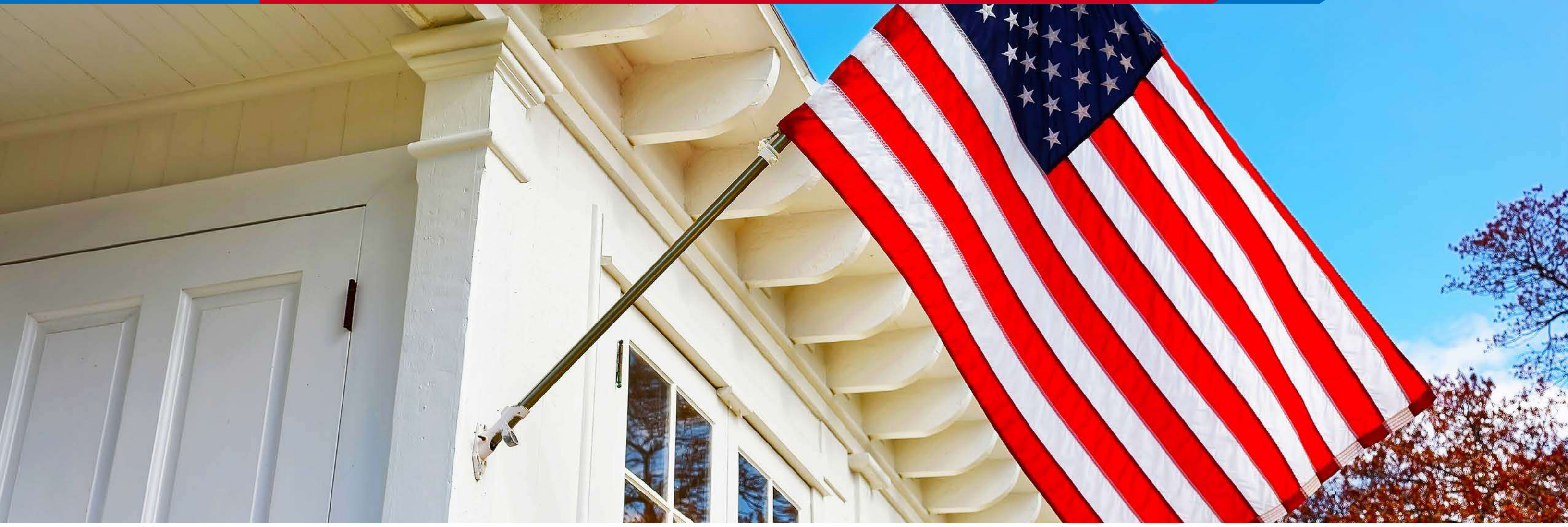
Like other types of mortgages, VA loans are subject to regulation, disclosure, and VA lending guidelines. The VA loan benefit can be used multiple times, and the funding fee will vary for subsequent uses.

VA-Backed Purchase and Construction Loans

Rates for Veterans, active-duty service members, and National Guard and Reserve Members

	If your down payment is...	Your VA funding will be...
First use	Less than 5%	2.3%
	5% or more	1.65%
	10% or more	1.4%
After first use	Less than 5%	3.6%
	5% or more	1.65%
	10% or more	1.4%

Source: U.S. Department of Veteran Affairs



The VA Loan Guaranty

The VA guarantees the VA loan once the loan is approved and closing is complete. If the borrower cannot repay the loan or a later owner does not pay (after assumption), the lender is protected.

A VA mortgage guarantee can cover up to 50 percent of a loan up to $45,000. Veterans with entitlements of up to $36,000 may guarantee a maximum of 40% of loans between $45,000 and $144,000.

Loan Amount	Maximum Potential Guaranty	Special Provisions
Up to $45,000	50% of the loan amount	Minimum guaranty of 25% on IRRRLs
$45,001 to $56,250	$22,500	Minimum guaranty of 25% on IRRRLs
$56,251 to $144,000	40% of the loan amount, with a maximum of $36,000	Minimum guaranty of 25% on IRRRLs
$144,001 to $647,200	25% of the loan amount	Minimum guaranty of 25% on IRRRLs
Greater than $647,200	The lesser of: 25% of the VA county loan limit **OR** 25% of the loan amount	Minimum guaranty of 25% on IRRRLs

Source: U.S. Department of Veteran Affairs

The maximum VA loan guarantee amount is the lesser of either 25% or $104,250, which is 25% of the Freddie Mac conforming loan limit for a single-family residence when the VA loan is used a second (or more) time. If the first use of entitlement is to finance over the VA county loan limit there is [NO cap on the amount the VA will guarantee] at 25% of the loan amount. This can be a loan for purchasing or construction of a home, purchasing a residential unit in a condominium, up to four-unit multifamily where the VA Entitled party occupies one unit as their primary residence or refinancing an existing VA loan. *Note: This figure will change annually*.

In general, Veterans can borrow up to the property's reasonable value or the purchase price, whichever is less, plus a funding fee, if applicable. There is a limit of 90 percent of the property's value on some refinance loans, plus any funding fee that must be paid. VA requires an appraisal to determine the reasonable value of the property.

In addition, VA loans cannot exceed either the appraisal value or the purchase price, plus the VA funding fee and energy-saving improvements, if applicable.

Calculating the VA Loan Guaranty

When a Veteran has fully available entitlement, their purchase price and eligibility amount are only limited by the amount they qualify for and/or a particular lender's maximum loan amount overlay, as the county loan limits set by FHFA do not apply (The Blue Water Navy (BWN) Vietnam Veterans Act of 2019).

In the event that a Veteran has a VA financed property, that they will be keeping and turning into a rental property, or possibly not selling prior to the closing of the new home; or if they have lost and/or compromised entitlement, due to a foreclosure, deed in lieu, short sale, or misuse, then this does not disqualify them from being able to use their VA Eligibility for a home loan. This is where Bonus Entitlement can be applied. The terms additional entitlement, bonus entitlement, or tier 2 entitlement are commonly used to mean the same thing. These terms are specific to communication with the VA about the guarantee and for ease of communication to this paper, we consider the term "bonus entitlement" to fully cover the subject.

In the latter example, with used or lost entitlement that will not be restored, the county limits are now effective to the VA Loan Limit. The available bonus entitlement amount is calculated by taking 25% of the county limit and subtracting the amount of used/lost entitlement from that amount. This remaining entitlement will represent 25% of their maximum purchase price, with $0 down.

For example, if a Veteran has used/lost entitlement of $54,000, and is looking to purchase a home in an area with a county limit of $647,200, the bonus entitlement amount available would be $107,800, with a maximum purchase price of $431,200, with $0 down payment required. The VA loan guaranty amount would be determined as follows:

$647,200 county limit X 25% = $161,800

$54,000 of used/lost entitlement subtracted from the $161,800 = $107,800 maximum entitlement available

$107,800 x 4 = $431,200 max purchase price with $0 down payment required

This calculation can be higher in some high-cost areas like California, New York, New Jersey, and other states, enabling Veterans to buy homes in line with higher-priced housing markets.

VA Loan Underwriting Guidelines

When a lender underwrites a VA loan, the lender follows the underwriting standards established in the Lender's Handbook of the VA Pamphlet (VA Pamphlet 26-7 Revised), which establishes the groundwork for the fundamental baseline approval of a VA home loan.

1. There is no specific credit score required for Veterans; however, satisfactory credit is preferred and some lenders may have additional overlays.

2. Stable finances are required to repay the loan, and disability income can be utilized and grossed up to increase eligible income, including certain retirement and alimony/child support. Additionally, Basic Allowance for Housing (BAH), and additional military pay such as housing allowance, sustenance, etc, can be used as a financial resource. Service members living off-post or off-base receive BAH, a stipend that helps with housing costs. The BAH does not have restrictions preventing service members from renting. A monthly allowance like this can help a borrower obtain a VA loan and purchase a home.

3. Active Duty service members who have served 90 days of continuous commitment can qualify for a VA loan.

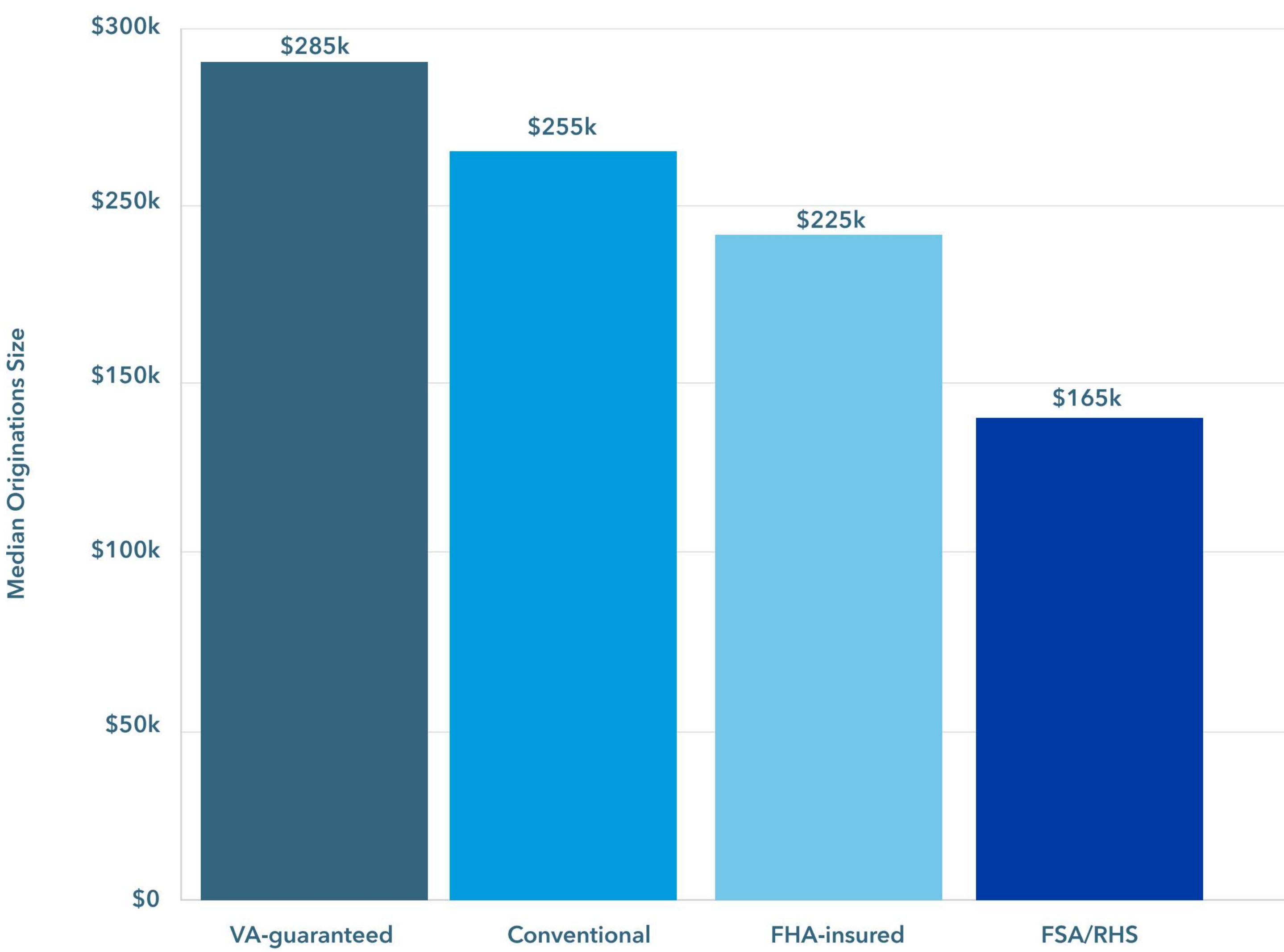
4. The residual income (net effective income minus monthly shelter expenses) is calculated in accordance with regional tables. *Note: grossed up income cannot be included for residual and the higher residual requirement for higher DTI.*

5. An acceptable ratio of total monthly debt payments to gross monthly income, even if this ratio exceeds acceptable levels.

VA loans have an acceptable debt-to-income ratio of 41%; however, if the debt-to-income ratio is higher than 41%, other credit factors may still allow the VA loan to be approved including the amount of residual income.

Since the VA home loan guarantee covers 25% of the outstanding loan amount, it will be up to the individual lender to underwrite the VA loan based on its policy and its secondary market strategy.

At $285,000, the median VA loan amount was the largest of all loan types in 2020 – *see the chart below for a comparison of purchase loan amounts by loan type.*



Source: HMDAVision, 2020 HMDA LAR Data, Home Purchase, 1-4 Units

Residual Income and VA Loans

Here, residual income comes into play. Residual income refers to the amount left over after all major expenses, including mortgage payments, have been paid. Location, loan amount, and family size affect residual income. A VA loan is still approvable if residual income exceeds the DTI requirement by 20% or above. Compensating factors and the use of automated underwriting systems help mortgage loan officers determine acceptable DTI ratios with accurate data. Additionally, a Joint Loan (commonly considered a cosigner) can be added to the loan application.

A Joint Loan Applicant on a VA loan may be a spouse or an unmarried member of the military who contributes to the borrower's lower debt-to-income ratio. If a borrower has a co-borrower, the lender will also look at their financial situation. To increase the chances of qualifying, the borrower should choose a co-borrower with a regular source of income and a good credit score. A Joint Loan with a co-borrower who is not a Veteran or Active Duty member can apply, but in this situation, a portion of the VA Loan Guaranty would be required as a down payment on the property.

VA Loan Full Entitlement

The maximum amount a Veteran, service member, or survivor can take out on a VA loan is no longer $144,000 for those with full entitlement. Therefore, borrowers don't have to pay a down payment, and if the borrower defaults on a loan over $144,000, the VA will pay their lender up to 25% of the loan amount.

If any of these conditions are met, the borrower has full entitlement:

- The borrower has never taken advantage of their home loan benefit, ***or***
- The VA loan the borrower previously had has been fully repaid, and the property was sold (in this case, the borrower would have their full VA entitlement again), ***or***
- The home loan benefit has been used, but the borrower had a foreclosure or compromise claim (also called a short sale) and have repaid in full.

Note: *Additional entitlement, bonus entitlement, and tier 2 entitlement are terms often used. The VA uses these terms when communicating with lenders about VA-backed loans over $144,000. These terms will not be required when a borrower applies for a loan.*

VA Loan Remaining Entitlement

In the event the borrower has remaining VA home loan entitlement, their VA home loan limit will be determined by the county loan limit in their county. In the event of a loan default, the VA will pay the borrower's lender up to 25% of the county loan minus any entitlement they have already used. The county loan limits are available here.

The remaining entitlement can be used to take out another VA home loan, either alone or in conjunction with a down payment.

These scenarios may indicate that the borrower still has remaining entitlement:

- The borrower's VA loan is active, and the borrower is still repaying it, ***or***
- The borrower owns the home outright and has already paid off a previous VA loan, ***or***
- The borrower's VA loan was refinanced into a non-VA loan, and they still own the home, ***or***
- In the past, the borrower made a compromise claim (or short sale) on a VA loan that was not repaid in full, ***or***
- If the borrower transferred their home's title to the bank holding their mortgage as part of a deed in lieu of foreclosure on a previous VA loan, ***or***
- The VA foreclosed on an earlier loan the borrower took out and didn't fully repay the loan.

In Conclusion:

Veterans, their families, and professionals benefit from a thorough understanding of the VA loan product. In this white paper, professionals in the industry examined seven myths associated with VA home loans:

1. VA loans are denied at a higher rate. ***False!*** **VA loans have the lowest denial rate among all products.**

2. VA loans are expensive for Veterans. ***False!*** **VA loans have the lowest origination fees, the lowest interest rate, and the lowest rate spread.**

3. People with weak financial backgrounds use VA loans and other "no down payment" mortgages to buy homes. ***False!*** **In our study, Veteran homeowners have an 18x higher net worth than home renters.**

4. FHA or Conventional loans are better for Veterans than VA loans. ***False!*** **Veterans have the option of a low interest rate, availability of special features for first-time homebuyers, closing costs are strictly regulated by the VA, and no down payment through the VA loan program.**

5. VA loan appraisals are slow to process and usually come back with low values. ***False!*** **On average, VA loan appraisals take seven to ten days to complete, which is typical of both Conventional and FHA loans.**

6. Sellers have to pay all closing costs. ***False!*** **Fees for origination, appraisal, title, discount points, credit reports, and well and septic inspections must be paid at closing. The only costs the Veteran cannot pay are the Wood Destroying Insect Report (WDIR) fees, but anyone may be able to cover them.**

7. VA loans can only be used once. ***False!*** **VA loans must abide by underwriting guidelines but subsequent and repeated use is allowed.**

The VA Loan is Both Financially Attractive and Practical

The data and facts highlighted in this white paper emphasize the positive aspects of the VA loan program and the financial responsibility of most Veteran households.

Getting to Know VA Loans

We encourage all stakeholders to engage in a rich discussion and to learn more about our Veterans, VA lending, and to understand in their local markets, who are the VA lenders and real estate agents, and how they are currently serving our Veterans.

The VA loan and lending process can be improved by collaborating and partnering with these lenders to learn best practices. In addition, we see a huge opportunity to improve the VA lending experience through data for all stakeholders, particularly Veterans.

Notes

1. In HMDAVision, HMDA data was filtered to 1-4 Units.

2. https://www.benefits.va.gov/WARMS/docs/admin26/handbook/ChapterLendersHanbookChapter8.pdf

3. Veterans receiving compensation for a service-related disability are exempt from paying the funding fee.

4. The rate spread is calculated by the lender per CFPB methodology and reported in lender's HMDA LAR. It is the spread between the Annual Percentage Rate (APR) and a survey-based estimate of APRs currently offered on prime mortgage loans of a comparable type utilizing the "Average Prime Offer Rates" fixed table or adjustable table, action taken, amortization type, lock-in date, APR, fixed-term (loan maturity) or variable term (initial fixed-rate period), and reverse mortgage. CFPB maintains a rate spread calculator and notes that "The data source for the 1 year ARM product is CFPB market research. The data source for all other products in mortgage rate survey data is the Freddie Mac Primary Mortgage Market Survey®."

5. ACS does not give insight into what kind of mortgage loan homeowners hold.

6. The public release of the VA loan groups VA loans with other government-sponsored loans (but not FHA), a cohort dominated by VA loans.

7. HMDA LAR data analysis in HMDAVision. There were a total of 247 lenders who originated all VA loans (IRRRLs, Cash-out, Home Improvement, and Purchase).

8. HMDA LAR data analysis in HMDAVision. For details about the underlying data, email Polygon Research at info@polygonresearch.com.