***Home Loan Guaranty***

**National Contact Center New Hire Challenge Training**

Veterans Benefits Administration

August 2020

**Duration:** 1 hours

**TMS: # 4644597**

**Audience:** This lesson is intended for new Public Contact Representatives (PCRs) within VBA’s National Call Centers (NCCs) however, it is also suitable for any new or experienced VA employee desiring information on this subject.

**Purpose:** This lesson provides VA employees assisting the public with an opportunity to enhance their knowledge on this topic. It fulfills the training requirement outlined in the Standard Operating Procedures (SOP) for new hires in the National Training Curriculum (NTC).

**Objectives:** Upon completing this lesson, trainees will be able to:

* Understand what a VA home loan is
* Explain the eligibility criteria
* Discuss home loan programs
* Explain how to apply for a Certificate of Eligibility

**References:**

**KM ARTICLE**

* [Home Loan Guaranty](https://vaww.vrm.km.va.gov/system/templates/selfservice/va_kanew/help/agent/locale/en-US/portal/554400000001001/content/554400000004854/Home-Loan-Guaranty?query=home%20loan)
* [Loan Guaranty Funding Fee](https://vaww.vrm.km.va.gov/system/templates/selfservice/va_kanew/help/agent/locale/en-US/portal/554400000001001/content/554400000111829/Home-Loan-Guaranty-Funding-Fee)
* [VA Home Loan Eligibility FAQs](https://vaww.vrm.km.va.gov/system/templates/selfservice/va_kanew/help/agent/locale/en-US/portal/554400000001001/content/554400000003315/Home-Loan-Guaranty-VA-Home-Loan-Eligibility-FAQs)
* [Centralized Mail Processing Initiative](https://vaww.vrm.km.va.gov/system/templates/selfservice/va_kanew/help/agent/locale/en-US/portal/554400000001001/content/554400000011217/Centralized-Mail-Processing-Initiative-Background-Information-and-FAQs?query=what%20is%20centralized%20mail%20processing)

**Intranet**

* [M21-1.IX.i.5., Loan Guaranty Benefits](https://vaww.vrm.km.va.gov/system/templates/selfservice/va_kanew/help/agent/locale/en-US/portal/554400000001034/topic/554400000003241/Chapter-05-Loan-Guaranty-Benefits)

**Internet**

* <https://www.va.gov/housing-assistance/home-loans/>

# Introduction

VA home loans can help Veterans, service members, and their survivors to buy, build, improve, or refinance a home. Veterans home loan may offer better terms than with a traditional loan from a private bank, mortgage company, or credit union. For example, nearly 90% of VA-backed loans are made with no down payment.

# VA Home Loan Program

VA offers VA home loan programs to help Veterans/beneficiaries buy, build, or improve a home or refinance their current home loan—including a VA direct loan and VA-backed loans.

## VA Direct Home Loan

With a VA direct home loan, VA serves as the mortgage lender. This means the Veteran/beneficiary work directly with VA to apply for and manage their loan. The Native American Direct Loan (NADL) program is VA’s direct home loan program and often has better terms than a home loan from a private lender (a private bank, mortgage company, or credit union).

**VA Backed Home Loan**

With a VA-backed home loan, VA guarantees (or stand behind) a portion of the loan the beneficiary gets from a private lender. If the VA-backed home loan goes into foreclosure, the guaranty allows the lender to recover some or all of their losses. Since there’s less risk for the lender, they’re more likely to give the beneficiary the loan under better terms. In fact, nearly 90% of all VA-backed home loans are made without a down payment.

Lenders follow VA standards when making VA-backed home loans. They may also require the claimant to meet additional standards before giving the claimant a loan. These standards may include having a high enough credit score or getting an updated home appraisal (an expert’s estimate of the value of the claimant’s home).

## Loan Types

VA has four different loan types that either qualify as VA backed or VA direct loans:

* Purchase Loan – VA Backed loan
* Native American Direct Loan Program (NADL) – VA Direct loan
* Interest Rate Reduction Refinance Loan (IRRRL) – VA Backed loan
* Cash-Out Refinance Loan – VA Backed loan

Knowledge Check

True/False: Native American Direct Loans are the only loans funded by VA.

## Purchase Loan

VA Purchase loan is advantageous for a Veteran because their lender will offer competitive interest rates of a VA backed loan. This can help the Veteran buy, build, and improve a home. Additionally, they can avoid paying a down payment when purchasing their home.

***Eligibility***

Claimants may be eligible for a VA-backed purchase loan if they meet all the requirements listed below. All of these must be true:

* Qualify for a VA-backed home loan Certificate of Eligibility (COE), **and**
* Meet our and the lender’s standards for credit, income, and any other requirements, **and**
* Will live in the home they’re buying with the loan

***Advantages of the VA Purchase Loan***

* **No down payment** as long as the sales price isn’t higher than the home’s appraised value (the value set for the home after an expert reviews the property)
* **Better terms and interest rates** than other loans from private banks, mortgage companies, or credit unions (also called lenders)
* **The ability to borrow up to the Fannie Mae/Freddie Mac conforming loan limit** on a no-down-payment loan in most areas—and more in some high-cost counties. The claimant can borrow more than this amount if the claimant wants to make a down payment.
* **No need for private mortgage insurance (PMI) or mortgage insurance premiums (MIP)**
	+ PMI is a type of insurance that protects the lender if the claimant ends up not being able to pay the claimant’s mortgage. It’s usually required on conventional loans if the claimant make a down payment of less than 20% of the total mortgage amount.
	+ MIP is what the Federal Housing Administration (FHA) requires the claimant to pay to self-insure an FHA loan against future loss.
* **Fewer closing costs**, which may be paid by the seller
* **No penalty fee** if the claimant pays the loan off early

Knowledge Check

Which of the following is not an advantage of a VA Purchase Loan?

1. No down payment
2. Better terms and interest
3. No closing costs
4. No penalty fee

## Native American Direct Loan

If the Veteran or their spouse is Native American, the Native American Direct Loan (NADL) program may help them get a loan to buy, build, or improve a home on federal trust land. They may also get a loan to refinance an existing NADL and reduce the claimant’s interest rate.

***Eligibility***

In order to be eligible, all the following must be true:

* The tribal government has an agreement – or Memorandum of Understanding (MOU) with the VA detailing how the program will work on its trust lands **and**
* The claimant has a valid Certificate of Eligibility (COE) **and**
* The claimant meets VA’s credit standards **and**
* The claimant has proof they make enough money to cover mortgage payments and other costs of owning a home **and**
* The claimant will live in the home they’re using the NADL to buy, build, or improve

***Advantages of the VA NADL***

* **No down payment** required in most cases
* **No need for private mortgage insurance (PMI)**, which is commonly charged to conventional loan borrowers
* **Limited closing costs** (fees the claimant pays for services and other costs related to getting a loan and buying a home)
* **A low-interest, 30-year fixed mortgage** (a fixed mortgage means the claimant’s interest rate will stay the same over the full life of the loan). The current VA interest rate for NADLs starts at **3%**. The claimant can contact the claimant’s state’s [VA regional loan center](https://www.benefits.va.gov/HOMELOANS/contact_rlc_info.asp) to find out what their interest rate will be and to get help starting their loan application.
* **A reusable benefit**, which means the claimant can get more than one NADL to buy, build, or improve another residence in the future
* **The ability to borrow up to the Fannie Mae/Freddie Mac conforming loan limit** on a no-down-payment loan in most areas and more in some high-cost counties. The claimant can borrow more than this amount if they want to make a down payment

Knowledge Check

True/False: Native American Direct Loans do not require a Certificate of Eligibility

## Interest Rate Reduction Refinance Loan

If a beneficiary has an existing VA-backed home loan and they want to reduce their monthly mortgage payments—or make their payments more stable—an interest rate reduction refinance loan (IRRRL) may be right for them. Refinancing lets them replace their current loan with a new one under different terms.

***Eligibility***

In order to be eligible for IRRRL, the following must be true:

* Already have a VA-backed home loan **and**
* Are using the IRRRL to refinance their existing VA-backed home loan **and**
* Can certify that they live in or used to live in the home covered by the loan

If the claimant has a second mortgage on the home, the holder must agree to make their new VA-backed loan the first mortgage.

***Advantages of the IRRRL***

* Lower the claimant’s monthly mortgage payment by getting the claimant a lower interest rate, **or**
* Make the claimant’s monthly payments more stable by moving from a loan with an adjustable or variable interest rate (an interest rate that changes over time) to one that’s fixed (the same interest rate over the life of the loan)

Knowledge Check

True/False: If the claimant has a second mortgage on the home, the holder must agree to make their new VA-backed loan the first mortgage

## Cash Out Refinance Loan

A VA-backed cash-out refinance loan lets a Veteran replace their current loan with a new one under different terms. If they want to take cash out of their home equity or refinance a non-VA loan into a VA-backed loan, a VA-backed cash-out refinance loan may be right for them.

***Eligibility***

In order to be eligible, the following must be true:

* Qualify for a VA-backed home loan Certificate of Eligibility (COE) **and**
* Meet VA’s and lender’s standards for credit, income, and any other requirements **and**
* Will live in the home the claimant is refinancing with the loan

***Advantages of the Cash Out Refinance Loan***

* Take cash out of the claimant’s home equity to pay off debt, pay for school, make home improvements, or take care of other needs, **or**
* Refinance a non-VA loan into a VA-backed loan

# How to Apply for VA-Backed Loans

In order to apply for VA-backed loans (not NADL), the claimant will need to complete several steps with the VA as well as the private sector:

* Apply for Certificate of Eligibility
* Find a lender
* Give lender any needed information
* Follow lender’s process for closing on loan

## How to Apply for Certificate of Eligibility (COE)

Applying for a COE is the first step of the VA home loan process. It confirms for the lender that the beneficiary is eligible for the VA home loan benefit.

***Documents Need to Apply***

The following documents will need to be submitted based on the individual applying for a COE:

* Veteran
	+ Copy of discharge or separation papers (DD214)
* Surviving Spouse
	+ In receipt of Dependency & Indemnity Compensation (DIC)
		- [VA Form 26-1817, Determination of Loan Guaranty Eligibility – Unmarried Surviving Spouses](https://www.vba.va.gov/pubs/forms/VBA-26-1817-ARE.pdf?_ga=2.200716908.311206835.1546861480-1173244138.1525894550)
		- Veteran’s DD214 or separation papers
	+ Not in receipt of DIC
		- [VA Form 21P-534EZ, Application for DIC, Survivor’s Pension, and/or Accrued Benefits](https://www.vba.va.gov/pubs/forms/VBA-21P-534EZ-ARE.pdf?_ga=2.233853660.311206835.1546861480-1173244138.1525894550)
		- Veteran’s DD214 or separation papers
		- copy of marriage license
		- Veteran’s death certificate

***Submitting Application for COE***

The claimant can utilize the following methods to submit request for COE:

* Online through [eBenefits.va.gov](https://www.ebenefits.va.gov/ebenefits/about/feature?feature=cert-of-eligibility-home-loan)
* Web LGY system
	+ Claimants will need to ask their lender about this process
* By mail
	+ VA Loan Eligibility Center
	Attn: COE (262)
	PO Box 100034

 Decatur, GA 30031

## Finding a Lender

The claimant will go through a private bank, mortgage company, or credit union—not directly through us—to get a cash-out refinance loan. Terms and fees may vary, so contact several lenders to check out the claimant’s options.

Claimants need to be careful when considering home refinance offers. Claims that can skip payments or get very low interest rates or other terms that sound too good to be true may be signs of a misleading offer.
[Learn more about the signs of misleading refinance offers](https://www.blogs.va.gov/VAntage/43234/va-and-the-consumer-financial-protection-bureau-warn-against-home-loan-refinancing-offers-that-sound-too-good-to-be-true/)

## Information Lender Will Require

In addition to the claimant’s COE, they need to give the lender:

* Copies of paycheck stubs for the most recent 30-day period
* W-2 forms for the previous 2 years
* A copy of the claimant’s federal income tax returns for the previous 2 years (required by many, but not all lenders)
* Any other information the lender requires

**Note:** The lender will order a home appraisal, an expert assessment of the value of the claimant’s home.

**Closing and Closing Costs**

The claimant may need to pay a VA funding fee at closing. This one-time fee helps to lower the cost of the loan for U.S. taxpayers since the VA home loan program doesn’t require down payments or monthly mortgage insurance. Their lender will also charge interest on the loan in addition to closing fees.

Knowledge Check

Which of the following methods to submit a Certificate of Eligibility (COE) must be done through the lender?

1. eBenefits
2. Mail
3. Web LGY

**VA Funding Fee**

The VA funding fee is a one-time payment that the Veteran, service member, or survivor pays on a VA-backed or VA direct home loan. This fee helps to lower the cost of the loan for U.S. taxpayers since the VA home loan program doesn’t require down payments or monthly mortgage insurance.

**Who Has to Pay the Funding Fee**

If the claimant is using a VA home loan to buy, build, improve, or repair a home or to refinance a mortgage, the claimant will need to pay the VA funding fee unless the claimant meet certain requirements.

## **Won’t have to pay a VA funding fee if any of the below descriptions is true. The claimant is:**

* Receiving VA compensation for a service-connected disability, **or**
* Eligible to receive VA compensation for a service-connected disability, but receiving retirement or active-duty pay instead, **or**
* The surviving spouse of a Veteran who died in service or from a service-connected disability, or who was totally disabled, **and**the claimant is receiving Dependency and Indemnity Compensation (DIC), **or**
* A service member with a proposed or memorandum rating, before the loan closing date, saying the claimant is eligible to get compensation because of a pre-discharge claim, **or**
* A service member on active duty who before or on the loan closing date provides evidence of having received the Purple Heart

The beneficiary may be eligible for a refund of the VA funding fee if they’re later awarded VA compensation for a service-connected disability. The effective date of their VA compensation must be retroactive to before the date of their loan closing.

If the claimant thinks they’re eligible for a refund, direct them to the VA regional loan center at 877-827-3702.

***How the Fee is Paid***

The beneficiary pays this fee when they close their VA-backed or VA direct home loan.

They can pay the VA funding fee in either of these ways:

* Include the funding fee in their loan and pay it off over time (called financing), **or**
* Pay the full fee all at once at closing

***How Much the Beneficiary Will Pay***

This depends on the amount of the loan and other factors.

For all loans, we’ll base the VA funding fee on**:**

* The type of loan, **and**
* The total amount of the loan. VA will calculate their funding fee as a percentage of the total loan amount.

Depending on the loan type, we may also base the fee on:

* Whether it’s a first time, or a subsequent time, using a VA-backed or VA direct home loan, **and**
* Down payment amount

The lender will also charge interest on the loan in addition to closing fees.

**Funding Fee Rate Charts**

<https://www.va.gov/housing-assistance/home-loans/funding-fee-and-closing-costs/>

**Instructor’s note: review the website to cover the current funding fee rate charts with the trainees**

## VA Regional Loan Center (RLC)

For callers that have specific questions regarding their VA home loan, direct them to the VA Regional Loan Center number 1-877-827-3702. They’re available Monday through Friday 8am-6pm EST.

Knowledge Check

What is the VA Funding Fee for a Native American Direct Loan initial purchase?

**VA Home Loan for Surviving Spouses**

To get a VA-backed home loan as the surviving spouse of a Veteran, they will need a Certificate of Eligibility (COE) to show the lender that they qualify for this benefit. Keep in mind that they will also need to meet the lender’s credit and income requirements to get a loan.

**Eligibility**

The claimant may be able to get a COE if they’re the spouse of a Veteran, and at least one of the descriptions below is true for them. At least one of these must be true. The Veteran:

* Is missing in action, or
* Is a prisoner of war (POW), or
* Died while in service or from a service-connected disability and the claimant didn’t remarry, or
* Died while in service or from a service-connected disability and the claimant didn’t remarry before the claimant were 57 years old or before December 16, 2003, or
* Had been totally disabled and then died, but their disability may not have been the cause of death (in certain situations)

Note: A surviving spouse who remarried before December 16, 2003, and on or after their 57th birthday, must have applied no later than December 15, 2004, to establish home loan eligibility. We’ll have to deny applications we received after December 15, 2004, from surviving spouses who remarried before December 16, 2003.

### If They’re Receiving DIC Benefits

The claimant will need to fill out a Request for Determination of Loan Guaranty Eligibility—Unmarried Surviving Spouses (VA Form 26-1817).
[Download VA Form 26-1817 (PDF)](https://www.vba.va.gov/pubs/forms/VBA-26-1817-ARE.pdf?_ga=2.200716908.311206835.1546861480-1173244138.1525894550)

They will also need the Veteran’s DD214 (or other separation papers) if available.
[Get military service records online](https://www.archives.gov/veterans/military-service-records)

Submit the form and discharge or separation papers to:

* Your lender for processing online, **or**
* The VA regional loan center that serves your state

### If They’re Not Receiving DIC Benefits

They will first need to fill out an Application for DIC, Survivors Pension and/or Accrued Benefits (VA Form 21P-534EZ).
[Download VA Form 21P-534EZ (PDF)](https://www.vba.va.gov/pubs/forms/VBA-21P-534EZ-ARE.pdf?_ga=2.233853660.311206835.1546861480-1173244138.1525894550)

Also need:

* The Veteran’s DD214 (or other separation papers) if available, **and**
* A copy of marriage license, **and**
* The Veteran’s death certificate

# VA home loan limits

If the beneficiary has remaining entitlement for their VA-backed home loan, find out the current loan limits and how they may affect the amount of money they can borrow without a down payment. As of 2020, if they have full entitlement, they don’t have a VA loan limit.

**What Full Entitlement Means**

Eligible Veterans, service members, and survivors with full entitlement no longer have limits on loans over $144,000. This means they won’t have to pay a down payment, and we guarantee to their lender that if they default on a loan that’s over $144,000, we’ll pay them up to 25% of the loan amount. They have full entitlement if they meet either of the requirements listed below:

•    Never used your home loan benefit, **or**
•    Paid a previous VA loan in full and sold the property, **or**
•    Used their home loan benefit, but had a foreclosure or compromise claim (also called a short sale) and repaid us in full

**What Happens if You Have Remaining Entitlement**

With remaining entitlement, their VA home loan limit is based on the [county loan limit](https://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx) where they live. This means that if the beneficiary defaults on their loan, we’ll pay the lender up to 25% of the county loan limit minus the amount of they’ve entitlement you’ve already used.

The beneficiary can use their remaining entitlement—either on its own or together with a down payment—to take out another VA home loan.

**They may have remaining entitlement if any of these are true:**
•    Have an active VA loan they’re still paying back, **or**
•    Paid a previous VA loan in full and still own the home, **or**
•    Refinanced your VA loan into a non-VA loan and still own the home, **or**
•    Had a compromise claim (or short sale) on a previous VA loan and didn’t repay us in full, **or**
•    Had a deed in lieu of foreclosure on a previous VA loan (this means they transferred their home’s title to the bank that holds the mortgage to avoid foreclosure), **or**
•    Had a foreclosure on a previous VA loan and didn’t repay VA in full

The VA-backed home loan limit refers to the amount we’ll guarantee (the maximum amount we’ll pay to your lender if you default on your loan). We don’t limit how much you can borrow to finance a home.

**County Loan Limit Affect**

The beneficiary may need to make a down payment if they’re using remaining entitlement and the loan amount is over $144,000. This is because most lenders require that the entitlement, down payment, or a combination of both covers at least 25% of your total loan amount.

If the beneficiary is able and willing to make a down payment, they may be able to borrow more than the county loan limit with a VA-backed loan. Remember, the lender will still need to approve them for a loan. The lender will determine the size of loan you can afford based on their:
•    Credit history
•    Income
•    Assets (items of value such as savings, retirement, and investment accounts)

VA does not require a minimum credit score, but some lenders may have different credit score requirements.

Knowledge Check

If the surviving spouse is not in receipt of DIC, what initial standard form is required before applying for a VA home loan?