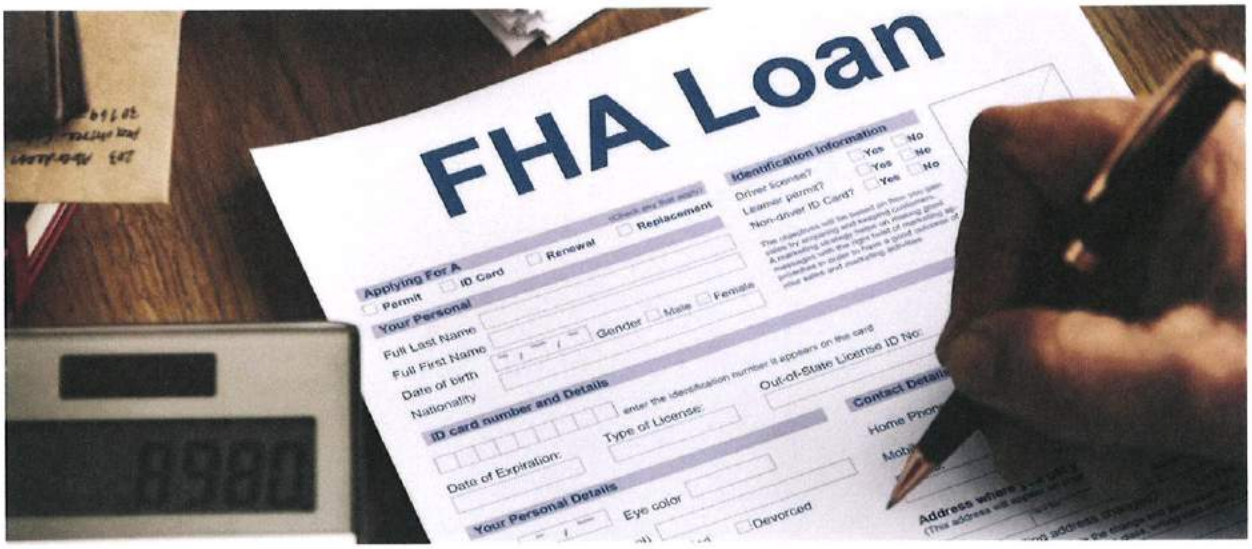
Chapter 9



Government Real Estate Financing Including FHA, VA, and CalVet Loans

Chapter 9 Goals:

- Understand the basic dynamics of an FHA loan, VA loan, CalVet Loan and each programs eligibility requirements
- Understand the multiple forms used for creative financing
- Understand the secondary mortgage market and its broad ranging effects in the real estate market
- List the fees associated with FHA, VA, and CalVet Loans
- Be able to describe fees and terms associated with an FHA loan, VA loan and CalVet loan
- How Fannie Mae, Freddie Mac, and Ginnie Mae insure mortgages
- Understand basic qualifications for loan modification programs

Chapter 9: Government Real Estate Financing

Key Terms

Adjustable-Rate-Mortgage (ARM)	Fannie Mae	mobile home
California Department of Veteran Affairs (CDVA)	Federal Housing Administration (FHA)	Mortgage-Backed Securities (MBS)
California Veterans Farm and Home Purchase Program (Cal Vet)	FHA Home Affordable Modification Program	mortgage insurance
CalVet loans	FHA loans	National Affordable Housing Trust Fund
certificate of eligibility	Freddie Mac	National Housing Act
certificate of Reasonable Value (CRV)	Ginnie Mae	nonconventional loan
conforming loan	government-sponsored entity (GSE)	Office of Federal Housing Enterprise Oversight (OFHEO)
conventional loan	graduated Payment Mortgage (GPM)	primary mortgage market
Department of Housing and Urban Development (HUD)	HUD Direct Endorsement Plan	points, fees, and closing costs
Department of Veterans Affairs (VA)	insured loan	requalification
discount point	interest rate	secondary mortgage market
down payment	interest rate reduction refinancing loan (IRRRL)	Servicemembers Civil Relief Act (SCRA)
	jumbo loan	VA loans
	manufactured home	veteran's entitlement

The Secondary Mortgage Market

The **secondary mortgage market** refers to loans that are sold by one lender to another lender or investor. (As opposed to the **primary mortgage market**, which refers to any loans that a lender provides directly to a borrower.)

Such loans can be sold individually or they can be packaged with other loans.

Typically, mortgages originated on the secondary market are bundled with 50 or more promissory notes and sold in bulk. This practice is common throughout the real estate world. In many instances, a bulk mortgage buyer will not have the full list of all mortgages provided.

When mortgages are sold, only the holder of the promissory note changes. A borrower's mortgage payments and other debt obligations remain the same. A borrower will simply make payments to the new note holder. The new note holder may opt to continue using the same servicer or hire a new servicing company.

Government-Sponsored Entities (GSEs)

The secondary mortgage market is largely comprised of **government- sponsored entities (GSEs)**.

The main goals of GSEs are to:

- Establish mortgage guidelines
- Reduce lenders' loan origination risk by guaranteeing all or a portion of the loans they service
- Reduce the costs associated with consumer borrowing to incentivize home ownership
- Increase the flow of credit throughout targeted areas of the market

Fannie Mae

The Federal National Mortgage Association – more commonly known as **Fannie Mae** – is a government-sponsored enterprise that incentivizes growth in the secondary mortgage market.

Fannie Mae was founded in 1938 to increase borrower access to capital and expand home ownership during the Great Depression.

Although Fannie Mae is a direct government subsidiary, it is independently operated. A 15-member board helps develop Fannie Mae's broad-ranging goals without direct influence from politicians. It contributes to policy, strategy, and effective credit output for the United States credit market.

Fannie Mae is also one of the largest buyers of secondary mortgage products. It buys:

- Government-insured mortgages (i.e. FHA and VA loans)
- Adjustable loans
- Conventional loans from traditional private lending institutions

These loans must follow the guidelines established by Fannie Mae and Freddie Mac. If a mortgage loan adheres to the guidelines put forth by these GSEs, it is known as a **conforming loan**.

The guidelines for a conforming loan include:

- Must be a single-family residence
- Must be either a 15-year or 30-year fixed loan
- Maximum loan amount of $417,000

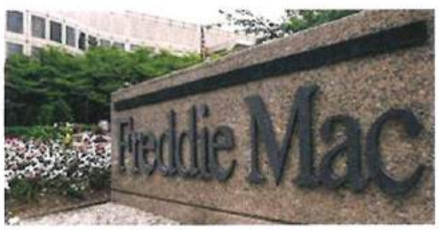
In return, lenders receive **mortgage-backed securities (MBS)**. MBSs guarantee loan performance and lessen a lender's level of risk in originating loans. This subsequently encourages them to provide more loans. By increasing the supply of money used for lending, more borrowers can obtain credit and ultimately purchase a home.

As of 2017 (the last date of changing guidelines), Fannie Mae services mortgages of up to $424,000 for single-family residences, $543,000 for a two-family residence, and $656,350 for a three-family residence.

Fannie Mae may extend the standard maximum loan amount in high-cost neighborhoods. For example, Fannie Mae may purchase up to $636,150 for a single-family residence in a high-cost neighborhood. This gives borrowers access to lower mortgage rates and allows them to avoid getting a jumbo loan.

A **jumbo loan** refers to any loan amount above $417,000. Jumbo loans carry higher interest rates and more qualifications than conforming loans.

Freddie Mac



The Federal Home Loan Mortgage Corporation – more commonly known as **Freddie Mac** – was created in 1970.

A government-sponsored enterprise, Freddie Mac's purpose is to buy old mortgages and resell them as mortgage-backed securities (MBSs) to investors. It also shares Fannie Mae's guidelines for maximum loan amounts serviced.

After the 2008 real estate crisis, Freddie Mac was tasked with creating solutions for borrowers with conforming loans, as well as for borrowers who could not afford their second mortgages.

Freddie Mac did so through the Home Affordable Modification Program (HAMP) and the Home Affordable Foreclosure Alternative Program (HAFA).

Ginnie Mae

The Government National Mortgage Association – more commonly known as **Ginnie Mae** – was created in 1968 to promote home ownership for high-risk borrowers who would otherwise have little access to capital.

Ginnie Mae does not purchase government-backed securities; instead, it guarantees newly processed mortgages. In guaranteeing that approved lenders will receive principal and interest payments in exchange for originating higher risk loans, Ginnie Mae incentivizes lenders to approve more mortgages. This provides security to lenders even during periods of slow economic growth or a recession.

Consequently, many borrowers who would otherwise be unable to obtain mortgage loans can qualify for loans provided by Ginnie Mae.

GSE Oversight

The **Office of Federal Housing Enterprise Oversight (OFHEO)** is an agency that was created by Congress in 1992. The OFHEO is tasked with providing research and analysis of Fannie Mae and Freddie Mac's activities. This includes current mortgage rates, current practices, and the availability of credit. The OFHEO also conducts independent audits of both GSEs.

Based on its research, the OFHEO makes recommendations for best practices regarding the financial health of Fannie Mae and Freddie Mac.

In an effort to provide stability to GSEs in the aftermath of the 2008 real estate crisis, both Fannie Mae and Freddie Mac were placed under the conservatorship of the Federal Housing Finance Agency (FHFA).

Since 2008, the Treasury has provided the necessary funds to promote the financial stability of the two GSEs. Funding for the conservatorship was originally $124.8 billion. That total has since increased to $160 billion.

Conventional vs. Nonconventional Loans

Conventional Loans

A **conventional loan** is a mortgage product that is not guaranteed by the government. It offers two basic loan options – fixed-rate and adjustable rate – and is the most common type of loan.

Private investors originate conventional loans. However, Fannie Mae and Freddie Mac purchase many of the conventional loans on the free market. This returns capital to private lenders that they can reinvest in originating more loans.

Many lenders follow Fannie Mae and Freddie Mac's guidelines to ensure that their loans can be purchased by the two GSEs.

The minimum guidelines for a borrower to be approved for a conventional loan are:

- Credit score of 620
- Maximum debt to income ratio of about 40%
- Minimum down payment of 20%

Nonconventional Loans

A **nonconventional loan** – also known as a government loan – is a loan guaranteed by the government.

The purpose of nonconventional loans is to offer a loan option for borrowers who are having difficulty getting approved for a conventional loan or who do not have the necessary down payment required by traditional lenders. A government loan may offer more flexible terms, such as lower down payment or credit requirements, to make it easier to obtain a loan.

In 1934, the government responded to the growing threat of the Great Depression by passing the **National Housing Act**. The Act created two new agencies to stabilize the real estate market in periods of growth and decline:

- Federal Housing Administration (FHA)
- Department of Housing and Urban Development (HUD)

FHA Loans

The **Federal Housing Administration (FHA)** sets standards for the nonconventional mortgage industry, including the approval and underwriting process.

After the real estate crash in 2008, the FHA started backing nearly one-third of all newly originated mortgages in the United State's. It did so because of the financial instability of traditional lenders and the high volume of consumers whose negative credit ratings and low incomes prevented them from being approved for loans.

FHA does not provide loans directly; rather, they are guarantors of mortgage products originated by mortgage companies, insurance companies, banks, thrift shops, and others.

Both the FHA and HUD incentivize growth in the housing market by qualifying consumers who may otherwise have a challenging time getting qualified through traditional means.

Detailed information about FHA and HUD practices can be found at www.fha.com and www.hud.com. Consumers can call 1 (800) CALL-FHA to speak with a FHA representative. They can call 1 (888) 995-HOPE to speak with a HUD representative or to receive free counseling.

The 2008 passage of the Housing and Economic Recovery Act (HERA) brought about major changes for the FHA mortgage market. Among them was the creation of the **National Affordable Housing Trust Fund**. The purpose of the Fund was to complement existing government initiatives to increase the supply of affordable housing for low- and extremely low-income individuals. GSEs are required to contribute a percentage of each originated mortgage towards the Fund.

In the initial years of the Fund, funds were used to cover the cost of defaulted or foreclosed loans. As the economy grew stronger and foreclosure rates decreased, the Fund was used to develop new programs and other incentives to promote affordable housing.

FHA Loan Criteria

FHA loans are made available to the public and offer less restrictive qualification guidelines than standard loans. This makes it possible for borrowers who cannot qualify for standard loans to invest in homeownership and opens the door for renters, first time homebuyers, and younger people to purchase a home.

FHA loans require a certified appraiser to verify a property's value in order to determine the maximum guaranteed loan amount, the appropriate down payment amount, and the level of risk.

FHA mortgage programs minimize the number of loans that go into default.

Insured Loan Amounts

The FHA insures or guarantees a maximum loan amount. If a property's value exceeds the maximum loan amount, a FHA loan will cover only the maximum loan amount, rather than the full property value.

Insured loan amounts are frequently amended to match current market conditions. In 2010, the maximum loan amount guaranteed by the FHA for properties in relatively low cost neighborhoods was $271,050. In more exclusive neighborhoods, the maximum loan amount changed from $729,750 to $625,500.

City	County Name	One-Family	Two-Family	Three-Family	Four-Family	Median Sale Price
SAN FRANCISCO-OAKLAND-HAYWARD, CA	ALAMEDA	$625,500	$800,775	$967,950	$1,202,925	$1,100,000
NON-METRO	ALPINE	$463,450	$593,300	$717,150	$891,250	$297,000
NON-METRO	AMADOR	$332,350	$425,450	$514,300	$639,150	$225,000
CHICO, CA	BUTTE	$293,250	$375,400	$453,750	$563,950	$215,000
NON-METRO	CALAVERAS	$373,750	$478,450	$578,350	$718,750	$220,000
NON-METRO	COLUSA	$271,050	$347,000	$419,425	$521,250	$206,000
SAN FRANCISCO-OAKLAND-HAYWARD, CA	CONTRA COSTA	$625,500	$800,775	$967,950	$1,202,925	$1,100,000
CRESCENT CITY, CA	DEL NORTE	$271,050	$347,000	$419,425	$521,250	$147,000
SACRAMENTO--ROSEVILLE--ARDEN-ARCADE, CA	EL DORADO	$474,950	$608,000	$734,950	$913,350	$399,000
FRESNO, CA	FRESNO	$281,750	$360,700	$436,000	$541,800	$232,000
NON-METRO	GLENN	$271,050	$347,000	$419,425	$521,250	$168,000
EUREKA-ARCATA-FORTUNA, CA	HUMBOLDT	$327,750	$419,550	$507,150	$630,300	$250,000
EL CENTRO, CA	IMPERIAL	$271,050	$347,000	$419,425	$521,250	$185,000
NON-METRO	INYO	$369,150	$472,550	$571,250	$709,900	$239,000
BAKERSFIELD, CA	KERN	$271,050	$347,000	$419,425	$521,250	$198,000

HANFORD-CORCORAN, CA	KINGS	$271,050	$347,000	$419,425	$521,250	$187,000
CLEARLAKE, CA	LAKE	$271,050	$347,000	$419,425	$521,250	$150,000
SUSANVILLE, CA	LASSEN	$271,050	$347,000	$419,425	$521,250	$115,000
LOS ANGELES-LONG BEACH-ANAHEIM, CA	LOS ANGELES	$625,500	$800,775	$967,950	$1,202,925	$680,000
MADERA, CA	MADERA	$271,050	$347,000	$419,425	$521,250	$195,000
SAN FRANCISCO-OAKLAND-HAYWARD, CA	MARIN	$625,500	$800,775	$967,950	$1,202,925	$1,100,000
NON-METRO	MARIPOSA	$322,000	$412,200	$498,250	$619,250	$200,000
UKIAH, CA	MENDOCINO	$373,750	$478,450	$578,350	$718,750	$280,000
MERCED, CA	MERCED	$271,050	$347,000	$419,425	$521,250	$195,000
NON-METRO	MODOC	$271,050	$347,000	$419,425	$521,250	$75,000
NON-METRO	MONO	$529,000	$677,200	$818,600	$1,017,300	$305,000
SALINAS, CA	MONTEREY	$529,000	$677,200	$818,600	$1,017,300	$460,000
NAPA, CA	NAPA	$625,500	$800,775	$967,950	$1,202,925	$572,000
TRUCKEE-GRASS VALLEY, CA	NEVADA	$477,250	$610,950	$738,500	$917,800	$339,000
LOS ANGELES-LONG BEACH-ANAHEIM, CA	ORANGE	$625,500	$800,775	$967,950	$1,202,925	$680,000
SACRAMENTO--ROSEVILLE--ARDEN-ARCADE, CA	PLACER	$474,950	$608,000	$734,950	$913,350	$399,000
NON-METRO	PLUMAS	$336,950	$431,350	$521,400	$648,000	$200,000

RIVERSIDE-SAN BERNARDINO-ONTARIO, CA	RIVERSIDE	$356,500	$456,350	$551,650	$685,550	$310,000
SACRAMENTO— ROSEVILLE-- ARDEN-ARCADE, CA	SACRAMENTO	$474,950	$608,000	$734,950	$913,350	$399,000
SAN JOSE-SUNNYVALE-SANTA CLARA, CA	SAN BENITO	$625,500	$800,775	$967,950	$1,202,925	$870,000
RIVERSIDE-SAN BERNARDINO-ONTARIO, CA	SAN BERNARDINO	$356,500	$456,350	$551,650	$685,550	$310,000
SAN DIEGO-CARLSBAD, CA	SAN DIEGO	$580,750	$743,450	$898,700	$1,116,850	$505,000
SAN FRANCISCO-OAKLAND-HAYWARD, CA	SAN FRANCISCO	$625,500	$800,775	$967,950	$1,202,925	$1,100,000
STOCKTON-LODI, CA	SAN JOAQUIN	$333,500	$426,950	$516,050	$641,350	$290,000
SAN LUIS OBISPO-PASO ROBLES-ARROYO GRAN	SAN LUIS OBISPO	$561,200	$718,450	$868,400	$1,079,250	$475,000
SAN FRANCISCO-OAKLAND-HAYWARD, CA	SAN MATEO	$625,500	$800,775	$967,950	$1,202,925	$1,100,000
SANTA MARIA-SANTA BARBARA, CA	SANTA BARBARA	$625,500	$800,775	$967,950	$1,202,925	$475,000

SAN JOSE-SUNNYVALE-SANTA CLARA, CA	SANTA CLARA	$625,500	$800,775	$967,950	$1,202,925	$870,000
SANTA CRUZ-WATSONVILLE, CA	SANTA CRUZ	$625,500	$800,775	$967,950	$1,202,925	$656,000
REDDING, CA	SHASTA	$273,700	$350,350	$423,500	$526,350	$219,000
NON-METRO	SIERRA	$304,750	$390,100	$471,550	$586,050	$128,000
NON-METRO	SISKIYOU	$271,050	$347,000	$419,425	$521,250	$127,000
VALLEJO-FAIRFIELD, CA	SOLANO	$400,200	$512,300	$619,300	$769,600	$338,000
SANTA ROSA, CA	SONOMA	$554,300	$709,600	$857,750	$1,065,950	$482,000
MODESTO, CA	STANISLAUS	$276,000	$353,300	$427,100	$530,750	$240,000

Down Payment

The minimum down payment amount for a FHA loan is 3.5% of a property's purchase price. This is compared to the 20% down payment required for standard loans.

In order to qualify, a borrower must have a credit score of at least 580. Borrowers with credit scores below 580 must put at least 10% down towards the purchase of a home. Borrowers with credit scores below 500 cannot qualify for FHA loans.

The real estate market crash of 2008 led to many significant changes in the mortgage market. One such change was the abolishment of down payment assistance from a seller or anyone who has a financial interest in a sale. A seller is prohibited from giving buyers funds to pay for the cost of points, fees, and others. The reason this changed was implemented was because the FHA believed that if the borrower didn't have the funds to make the down payment, they likely did not have the financial capacity to actually afford the mortgage.

However, a borrower can accept funds for a down payment from family, friends, business partners, or religious institutions.

Mortgage Insurance

To offset the risk of approving a borrower who doesn't meet the income requirements or who puts down less than the standard 20% down payment, the FHA requires borrowers to purchase mortgage insurance.

Mortgage insurance is a monthly payment paid by a borrower to a private mortgage company to secure his or her government loan. The annual charge is a percentage of a property's purchase price that may or may not be included in the loan amount.

If a borrower puts down 5% or less, or has 5% or less equity, the annual charge is .9% per year. If a borrower put down more than 5%, or has more than 5% equity, the annual charge is .85% per year.

If a borrower put down more than 10% or has more than 10% equity, he or she no longer needs mortgage insurance.

A borrower is also not obligated to pay mortgage insurance if a loan program is for less than 15 years. If a loan program is for longer than 15 years and has a loan value of 78% or lower, a borrower will not be responsible to pay mortgage insurance.

Interest Rates

Interest rates are determined by current economic activity, including market growth, job reports, inflation, and other economic measures. Generally, when an economy retracts, interest rates are reduced to encourage investment and maintain growth in the financing market.

The movement of the 10-year Treasury Rate is another indicator of whether rates will drop, increase, or remain the same.

Investors typically see bonds as safe investments. Historically, when bond purchases increase, interest rates decrease; when bond purchases decrease and investors turn to stocks, interest rates increase.

Loan Terms

Typically, FHA loan programs are no longer than 30 years. In recent years, short-term programs have gained popularity. However, the most common FHA loan is the 30-year fixed loan.

Fees & Points

A **discount point** is a fee charged by a lender for finding and processing a loan on behalf of a borrower. A discount point is subject to negotiations between a borrower and a lender and can be paid directly by the borrower or as a gifted amount by a friend or family member.

One discount point is equivalent to 1% of the total loan amount.

Lenders can charge a maximum of one point for FHA loans. If the collateral being used is unconstructed property, however, lenders can charge up to two points.

A borrower can be charged for application fees, appraisal fees, credit-running fees, and other common closing costs. However, the total fees for an FHA loan cannot exceed more than 6% of the total loan amount. This includes discount points as well. In other words, lenders cannot charge more than six percent as points or fees to the borrower to obtain the loan.

> **Example**
>
> Question: Marry Finkelstein needs to get approved for a loan to purchase a property. The total loan amount she needs is $145,000. The terms of the loan are a 7% interest rate and two discount points to be paid upon closing to the lender. What are the total loan charges she must pay?
>
> Answer: *Two discount points equals 2%. Therefore, the total loan charges in percentages are 7% + 2% = 9%. 9% of the total purchase price is ($145,000)(9%) = $13,050. She must pay $13,050 in loan charges.*

Mobile or Manufactured Homes

A veteran may use an FHA loan to purchase a mobile or manufactured home. In order for the home to qualify for a FHA loan, however, it:

- Must have been built after June 15, 1976
- Must be at least 400 square feet
- Must be affixed to a permanent foundation

Loan terms cannot exceed 15 years for single-width homes and 20 years for double-width homes.

FHA Loan Programs

Graduated Mortgage Program (GPM)

In addition to traditional mortgage products, the FHA has a program called the **graduated payment mortgage (GPM)**. The GPM is intended for borrowers whose income will likely increase in the future.

This program applies to borrowers who own, or are going to own, a single-family residence. It does not apply to investment, commercial or industrial real estate.

A GPM is a negative amortization mortgage. This means that the monthly mortgage payments do not cover interest payments. Instead, interest will be added to the loan's principal balance.

A negative amortization payment schedule will continue for five to ten years depending on how long it takes a borrower's income to increase. Monthly payments will remain the same after the five to ten-year period until the loan is paid off, refinanced, or the property is sold.

While negative amortization mortgages increase a borrower's principal balance, which reduces or eliminates a borrower's ability to build equity, such programs do allow borrowers who would otherwise not qualify for standard loans to buy a property.

Adjustable Rate Mortgage (ARMs)

Adjustable rate mortgages are an ever-growing segment of the FHA mortgage market. ARMs are for single-family residences or multi-unit residences of one to four units. The maximum loan term for an ARM is 40 years.

The interest rate on an ARM can increase by 1% every year, but cannot exceed more than 5% over the life of the loan. Once a loan reaches the maximum 5% interest rate, loan payments will remain the same.

HUD Direct Endorsement Plan

The government created the **HUD Direct Endorsement Plan** to increase loan volume.

The program grants certain lenders a "direct endorsement lender" status. These lenders approve borrowers and originate mortgages on behalf of the FHA/HUD, and the FHA/HUD endorses the approval. Direct endorsement lenders essentially work for the FHA/HUD in a private capacity in order to close more loans quickly.

In order to qualify for a HUD Direct Endorsement Plan, a borrower must qualify through a direct endorsement lender. This process is not as exhaustive as the standard loan qualifying process.

A direct endorsement lender must analyze a borrower's credit, income, assets, and liabilities, and determine the value of the property being used as collateral for the loan. A FHA-approved appraiser will also conduct an appraisal of the property.

Once all documents and inspections have been completed, the direct endorsement lender reviews a borrower's file to ensure that he or she is qualified.

FHA Home Affordable Modification Program

The **FHA Home Affordable Modification Program** gives borrowers with FHA-insured mortgages the ability to reduce their monthly mortgage payments in order to prevent default.

The main qualifications for the program include:

- A borrower proving financial hardship (i.e. reduced income, increased expenses, increased mortgage payments)
- The first mortgage on a borrower's property is a FHA-insured mortgage
- A borrower has retained the FHA-insured mortgage for at least 12 months.

To qualify, a borrower's expenses must exceed 31% of his or her total gross income.

VA Loans

The **Department of Veteran Affairs (VA)** was formed in 1930 to promote services for veterans. This included health care, education, and home loans.

The Service Member's Readjustment Act of 1944 – more commonly known as the GI Bill – was geared towards promoting housing for returning veterans. It extended to the purchase of a home, condominium, apartment, or manufacture home. (The purchase of farms was not included in the Bill.)

The Department of Veteran Affairs can approve veterans for loans of up to 100% of the property value. These loans are known as **VA loans**.

VA loans provide favorable financing options to current or retired service members, such as 0% money down and lower interest rates.

VA loans can be used for any of the following:

- Home purchase, including mobile and manufactured homes
- Property development
- Home improvements, including energy efficiency

In the event that a veteran borrower fails to keep up with loan payments and/or can no longer afford his or her property, the VA will pay the unpaid balance. In other words, the VA guarantees lenders that their loans will be paid. This incentivizes them to provide more loans to veterans, even those with low income, bad credit, or high LTV ratios.

In rural areas that have few lending institutions, the VA may provide direct loans to veterans. Areas like California and New York have many lending institutions. Therefore, veterans do not obtain loans directly from the VA, but from an authorized VA lender.

Authorized VA lenders can screen loan applicants, review vital documents, and issue approvals. However, unlike FHA loans, in which the FHA reviews an authorized lender's approval or disapproval decision, the VA does not. In this respect, VA loans have more leniency than all other loans.

Veterans also do not have to pay a fee for having their loan guaranteed by the government, unlike FHA loans.

Veteran Eligibility

Like other loans, a veteran must have certain credit and income qualifications to apply for a VA loan.

For example, a veteran must have a minimum 500 credit score. A veteran must have consistent monthly income, although he or she can use a spouse or other veteran as a co-borrower to meet income requirements.

A lender may request additional items, such as letters of explanation or other proof of income, in order to fully assess the risk associated with approving a veteran's loan.

Active Duty Requirement

A veteran can apply for a VA loan if he or she meets one of the following requirements:

- Has met minimum active duty requirements

- Discharged for disability purposes
- Called to serve from the Army Reserve or the National Guard by a Presidential Executive Order
- Received, or will receive, a Medal of Honor

In the unfortunate event that a solider dies or has been missing in action (MIA) for more than 90 days, the veteran's family will be eligible for benefits.

VA Loan Criteria

Property Type

A VA loan must be for an approved property type (i.e. single-family residence, condominium, one to four unit building). A borrower must intend to use the property as his or her primary residence for a specific duration upon the completion of the loan.

Veteran's Entitlement

The first step for a veteran to apply for a VA loan is to get a **certificate of eligibility**. This certificate indicates a **veteran's entitlement**, or the loan amount that will be guaranteed by the Department of Veteran Affairs. This depends on the county in which a veteran lives.

A certificate of eligibility can be retrieved from a regional VA office or located online.

Although the VA does not set a cap on the amount a veteran can borrow, it limits the loan amount it will guarantee. If a property's value surpasses the VA's guaranteed loan amount, a borrower must contribute additional funds to pay the difference.

The basic veteran's entitlement guaranteed by the VA is $36,000. Consequently, some lending institutions will not assume a risk higher than $36,000 unless the veteran's income and credit can be proven. Although only $36,000 is guaranteed, this does not mean lenders will not provide adequate financing to veteran's who document that they make enough money.

The veteran's entitlement for loans above $144,000 is a maximum of 25% of the loan. Depending on the county, the maximum veteran's entitlement is between $431,250 and $1,000,000.

County	Veteran's Entitlement
ALAMEDA	$625,500
ALPINE	$463,450
CONTRA COSTA	$625,500
EL DORADO	$474,950
LOS ANGELES	$625,500
MARIN	$625,500
MONO	$529,000
MONTEREY	$529,000
NAPA	$625,500
NEVADA	$477,250
ORANGE	$625,500
PLACER	$474,950
SACRAMENTO	$474,950
SAN BENITO	$625,500
SAN DIEGO	$580,750

SAN FRANCISCO	$625,500
SAN LUIS OBISPO	$561,200
SAN MATEO	$625,500
SANTA BARBARA	$625,500
SANTA CLARA	$625,500
SANTA CRUZ	$625,500
SONOMA	$554,300
VENTURA	$603,750
YOLO	$474,950

Certificate of Reasonable Value

A **certificate of reasonable value (CRV)** is used to appraise a property's value.

An appraisal is used specifically to determine a property's value, not whether the property has damage, mold, or negative conditions.

Any party associated with a transaction can order a CRV by filling out VA Form 26-1805. The form will be mailed to the Loan Guarantee Division of the VA office of the veteran's choice.

A veteran will receive a copy of the CRV. A loan cannot exceed the CRV's value. A veteran can withdraw a purchase offer in the event that the CRV's value is less than the purchase price. A CRV serves to assure veterans that they are not overpaying for a property.

If the property was appraised through the HUD, a buyer, seller, or real estate professional can request that the form be converted into a VA CRV.

Down Payment

The VA does not require a down payment if a property's certificate of reasonable value (CRV) is below the maximum VA loan guaranteed amount. However, a lender may still require a down payment to protect its financial interests.

Interest Rate

Interest rates for VA mortgages depend on current market rates. Borrowers have the ability to negotiate the terms of their mortgage and associated closing costs.

Points, Fees, & Closing Costs

Points, fees, and closing costs can be included in the loan. This is done to reduce or eliminate the amount a veteran is expected to pay out-of-pocket, which may reduce a veteran's likelihood of being able to attain a loan.

2.15% is the standard fee for a first-time VA loan borrower with a 5% or less down payment. If a veteran has already used a VA loan, the standard fee is 3.3%.

Refinancing

The VA allows borrowers to refinance if 80% or more of the original loan amount will be paid within the originally agreed timeframe. A veteran with a current VA loan can refinance his or her mortgage through an **interest rate reduction refinancing loan (IRRRL)**.

A borrower may have to supply a letter of explanation and provide documentation to back up the reasons for the refinance.

The primary reason that most veteran borrowers refinance is to reduce their interest rate. However, other reasons include accessing equity for repairs or educational purposes.

A refinanced loan cannot have a higher interest rate than the existing one, unless the loan is for educational or home improvement purposes.

Furthermore, the refinanced loan amount must be at, or below, the existing loan amount. The refinanced amount also cannot exceed the guaranteed amount. The loan terms must remain the same.

Veterans may also be able to request financial relief under the **Servicemembers Civil Relief Act (SCRA).** The Act provides loan forbearance to qualified borrowers. This allows veterans to reduce their loan interest rates and even suspend mortgage payments for up to nine months in order to allow them to find alternative housing arrangements.

Loan Servicing

The VA helps service veteran loans after they have been approved. In the event that a borrower falls behind on mortgage payments, the VA offers assistance programs to help veterans continue making payments and avoid foreclosure. Financial counseling and access to professionals are also available for immediate contact.

VA Loan Programs

- *Fixed Mortgage.* Up to a 30-year program.
- *Adjustable Rate Mortgage (ARM).* Not available.
- *Growing Equity Mortgage (GEM).* Based on the government index rate. Borrowers typically make higher payments and pay down the loan principal faster, resulting in a shorter loan term.
- *Graduated Payment Mortgage (GPM).* Lower initial payments. The interest rate will increase for first five years and then remain the same for the remainder of the loan.

FHA vs. VA Loans Summary

	FHA Loans	VA Loans
Loan Purpose	Primary residence purchases. Most are for first mortgages, although the FHA does allow secondary financing from other sources.	Primary residence purchases and first loans only.
Down Payment	Minimum of 3.5%.	The VA does not require a down payment. However, a lender may require one.

Guaranteed Loan Amount	Varies by county. Maximum amount is $625,500.	Varies by county. No set amount, but is typically around $420,000.
Interest Rate	Varies depending on market conditions and negotiations between a borrower and a lender.	Varies depending on market conditions and negotiations between a borrower and a lender.
Fees & Points	Total fees for a FHA loan cannot exceed more than 6% of the total loan amount.	2.15% for a first-time VA loan borrower with a 5% or less down payment, 3.3% if a veteran has already used a VA loan.
Prepayment	A borrower can choose to pay down his or her principal at any time.	A borrower can choose to pay down his or her principal at any time.
Refinancing	Allowed. The FHA Home Affordable Modification Program gives borrowers with FHA insured mortgages the ability to reduce their monthly mortgage payments to prevent default.	Allowed if 80% or more of the original loan amount will be paid within the original loan term or if the veteran faces demonstrable financial hardship.
RESPA	Must follow RESPA regulations.	Must follow RESPA regulations.

CalVet Loans

California passed the **California Veterans Farm and Home Purchase Program (CalVet)** in 1921. The purpose of the program was to assist war veterans in making residential real estate purchases. (CalVet does not cover commercial real estate purchases.)

CalVet loans allow veterans to:

- Finance a farm and home purchases
- Finance home construction or improvements

The **California Department of Veteran Affairs (CDVA)** helps facilitate CalVet loans from the initial loan application through the loan's close. The CDVA requires no assistance from private lenders; the program is fully funded by CalVet loans and the state legislature.

The CDVA is unlike any other government-financing agency. It purchases a property on behalf of a veteran and subsequently resells it to the veteran. The property's title is in the CDVA's name, but the veteran has the full rights of property ownership, including free use and private enjoyment. Once a veteran pays back the CalVet loan in full, the veteran becomes the titleholder.

Veteran Eligibility

A veteran borrower must meet certain qualifications to qualify for a CalVet loan, including:

- Income
- Credit score
- Eligibility for Veteran Loan Programs (i.e. proof of being a veteran)
- Property type (i.e. single-family residence, condominium, or one to four unit building)

Eligibility for veteran's is not necessarily based on a specific formula as is the case with other lending programs. Borrower's are however expected to have consistent monthly income that surpasses the cost of their expenses including mortgage payments, food, family expenses, other loans, and transportation.

In the rare circumstance that CalVet funds are running low or exhausted, priority will be given to veterans in the following order:

- Disabled veterans
- Released prisoners of war (POWs) or spouses of service members who are still missing or currently a POW
- Native American veterans who intend on buying land on a reservation
- Other veterans

CalVet Loan Criteria

Down Payment

The down payment requirement for a VA loan ranges from 0% to 20% down. The amount depends on the loan program for which a veteran applies, the loan amount, and whether the veteran has to gift the difference between the purchase price and the maximum entitlement amount.

Interest Rate

A VA loan's interest rate is subject to the rates set by the Federal Reserve and standard market trends. The cost of government bonds that help fund the VA Department are also a contributing factor.

If rates are lower than a veteran's current mortgage, the veteran can refinance and apply for a new loan. Once a VA loan is funded, the interest rate will remain the same for the life of the loan unless the borrower refinances.

Loan Term

The maximum loan term for VA loan is 30 years. A borrower can make payments to reduce the loan balance at any time.

Requalification

As long as a veteran has paid off a previous CalVet loan, he or she can qualify for a new CalVet loan.

Mortgage Relief

In the event that a service member is called to active duty, the California Military Families Financial Relief Act allows the service member to defer mortgage payments. This allows service members to serve their country without risking property loss.

Veterans can contact the nearest California Department of Veteran Affairs office or visit the official government website at www.benefits.va.gov to get detailed information on how to apply for a VA loan.