

VA Mythbusters

The Ugly Truth - Unintentional Consequences

By Karen Bates

When Lisa, a new REALTOR® and fellow military spouse entered my office, it was easy to see she was frustrated. Before she even settled into a chair she asked with concern, "Can you please tell me again how having two VA loans at the same time works? I know we covered it, but when I mentioned it to our in-house lender today, he told me you were crazy and are giving me a lot of bad information. He was very sure you were wrong and he is a veteran too."

Luckily, to combat Lisa's confusion with facts, I was able to quickly pull up an email directly from the VA Regional Loan Center in Phoenix confirming not only the fact that a veteran can have two VA loans at the same time, but that they can actually have as many VA loans as their VA Home Loan Guarantee will support. It's just math and location. Unfortunately, Lisa's confusion over VA is not an isolated incident.

Like most new REALTORS®, Lisa is learning all about VA transactions from both her fellow agents with experience and from the lenders she knows. The help and support are great. The problem is that they are all giving her different answers to the same questions. Can you relate?

From a Lender's Perspective:

When Kevin started in lending, he was excited to be the in-house lender at a prestigious realty firm through his lending company. He had served in the military for years and was anxious to settle down in sunny San Diego with his wife and kids. His goal and passion were to focus on military clients as he spoke the language and knew the frustration that came from multiple moves and new locations.

After six months on the job, he had learned everything he could about his mortgage company's VA guidelines and felt very confident that he was providing great service to his fellow veterans. But over time, something kept happening that he couldn't explain. The agents he was working so hard to impress, were second guessing his advice when it came to VA. He was sure that his guidelines stated both Section 1 and 2 termite items were required to be cleared, that repairs could not be paid for by the veteran, and the guidelines never mentioned anything about a second VA loan for a veteran. This left him wondering, what was he missing?

How The VA Went Wrong

What Lisa and Kevin didn't know was that Kevin's lender guidelines were full of what the industry calls VA overlays. Here's how it works. Although VA itself does not lend money to veterans, its purpose is to get veterans into homes. So when the VA wrote the VA Lender's Handbook, they kept the over 500 pages of guidelines as vague as possible to make sure the maximum number of veterans would be eligible for a home loan. A perfect example of this, the VA only gives a description of what to look for with credit history and never states a specific credit score for lenders to use. This is great news for veterans but it causes problems in the real estate marketplace.

When lending companies and investors use the VA Lender's Handbook, it is up to each individual lender to set overlays for their company so that the underwriting is fair and consistent

for their VA buyers. Basically, a lending company looks at the guidelines provided by the VA for items like credit, termite repairs, and appraisal repair requirements. Then they take the sometimes vague guidelines and make them more restrictive and specific. In the end, the unintentional consequence of keeping the VA guidelines as “pro” homeownership as possible is that it ultimately leads to a REALTOR® getting three different answers to the same question from three different lenders.

Your Lender’s Responsibility

To overcome the unintentional consequences, lenders must be aware of what the VA Lender’s Handbook states compared to what their in-house lending overlays are so that they can serve veterans, *even if that means sending their client to another lender who may have less restrictive overlays.*

Ken Bates at Military Home Loans does this when it comes to the VA 100% cash out refinance. His lending channel does not offer a refinance to 100% of the value of a home. Like most banks, he is limited to 90%. So he has searched hard to find a lender who can go to 100% of value allowed by VA. When he meets a veteran who needs that loan, he refers the veteran to a lender he trusts who can get that deal done.

“I know it sounds a little crazy to hear that we would refer business out to other lenders,” said Ken Bates, “but when you know the VA refinance is the best deal for your fellow veteran, there is simply no better way to do business. And consider this: We get referrals from these clients because people can tell when you have their best interest at heart versus your commission check. Our clients and referral partners trust us and love knowing that if for some reason we cannot get the deal done but it is doable, that we will ensure the veteran gets taken care of.”

The best test to know if you are working with a VA specialist is to make sure the lender knows the difference between what the VA allows versus what their lending company allows. Agents should be very concerned if they are working with a lender who believes and confidently states that they have no VA overlays. Let’s face it, a credit score is an overlay so would it be safe to state here that *every* lender has at least one overlay in this day and age?

Why It Matters

As Leslie Kilpatrick so beautifully articulated in her installation speech aboard the USS Midway, “If a soldier, sailor, marine or airman does not get a home because the seller has a better offer, that is a business reality. Should they not get that home because their REALTOR® or lender does not understand how to help them use their VA benefit, that is a tragedy.” Well said Leslie, I couldn’t agree more!

(Karen Bates, CPA, is President of VaproNetwork.com, Co-Founder of Military Home Loans, and a Proud Navy veteran. She received the honor of SDAR Affiliate of the Year in 2009 and 2013.)