

# VA Mythbusters

## You Don't Have to Get Burned with VA Transactions

*By Karen Bates*

I wince when I remember that knot I felt in my stomach when I heard Janet's story. Janet described to me how hard she had worked and how excited she was to get her very first listing. She was even more excited when the sellers accepted a VA offer from a military family.

She didn't know a lot about VA transactions, but she had heard that they were a wonderful benefit for veterans which left her eager to gain some firsthand VA experience. Even better, the contract hadn't requested any seller credit so her sellers were happy they would walk away with the exact amount of cash they needed to close on their new dream home.

Unfortunately, one week before closing, she got the call that changed everything. It was Shannon, the agent for the buyers informing her that the amount of the seller's costs for the buyers VA non-allowed fees were only \$4,000, which she felt was a great value on a \$500,000 purchase. Janet recalled that although she was surprised and more than a little irritated by the call, she kept her composure and politely responded that the contract did not request her sellers pay for the VA non-allowed fees.

Now Shannon was surprised and reminded Janet that the "VA box" on the contract had clearly been checked which meant that the sellers agreed to pay the fees when they accepted the offer. Shannon insisted this is how the VA works: The seller covers the VA non-allowed fees. And then Shannon said the words that made the tears flow as the anger and reality of the situation settled in: "Honestly Janet, no matter who is right or wrong, the truth is that if the sellers do not cover these fees, the buyers will have to cancel the contract because they simply do not have the money."

Janet hung up and pondered how she had ended up in this situation. Her sellers were closing on their new home just two weeks after their current one sold. They would be devastated. Her reputation would be ruined. At the same time, she really needed her full commission to pay her own mortgage and now she would have to give up a good portion of it to get this deal closed. It was too late to find another buyer.

Janet told me that this had happened to her five years ago. She had not accepted another VA offer since then and never would again. She firmly believed that VA transactions were simply too risky for sellers to accept and came with too many surprises.

### **Get Fireproof**

Let's face it; if you have been in the industry long enough and closed any number of deals, you have probably gotten caught in a situation that has left a scar, or maybe even two, on your heart. But the VA loan stands strong as an amazing benefit for Veterans.

So before you shy away from VA, let's review the most common VA myths that can kill your deal or like Janet, your motivation to take one on in the first place. The knowledge of these will properly arm you with the shield you need to protect your clients and yourself as you head out onto the proverbial battlefield of VA transactions.

#### **VA Myth #1: A VA Offer Always Costs the Seller More Money**

VA non-allowed fees can be paid by anyone other than the VA buyer. Frequently, lenders are covering these fees when it makes sense which allows the seller to close without extra costs for the VA deal. Make sure to find out at the start how these will be paid if the seller will not pay them and the Veteran wants the home.

#### **VA Myth #2: A Buyer Going with 100% Financing is Broke**

In today's market, for every \$10,000 a buyer puts down on their purchase, they only save about \$35 each month. When buyers hear this, they often opt to keep their money in the bank simply because they can with VA. So when in doubt, ask if the buyer has any cash in the bank just in case that money is needed at closing time and the seller would like to minimize their exposure.

#### **VA Myth #3: It Takes Longer to Close a VA Loan**

VA loans can and often do close in 30 days or less. To do this, the appraisal must be ordered as soon as possible. If a lender requires more time, get a different lender if the closing timeframe is critical. Keep in mind, it is only in rare cases that are identified upfront that the VA itself will see or need to approve a loan before it closes. So if you hear it is the VA holding up the closing, ask why the VA has the loan and why the delay was not identified upfront.

#### **VA Myth #4: 4% is the "Rule of Thumb" for VA Seller Credit**

Consider this, many of the costs for a loan are "fixed costs" and do not fluctuate with the purchase price. These are fees like the notary, recording, appraisal, underwriting, and processing fees. Since 4% of \$100,000 (\$4,000) is very different than 4% of \$400,000 (\$16,000), please throw out the rule of thumb along with the percentage and get an actual dollar amount from your lender. Using a percentage and asking for more credit than necessary will hurt the chances of your offer getting accepted.

#### **VA Myth #5: Veterans Cannot Pay for Repairs**

Veterans can and often do pay for repairs. The repairs do need to get done before closing so the question to ask; how much money should the Veteran buyer invest in a home before they own it?

#### **VA Myth #6: Veterans Cannot Pay for Termite Work**

Veterans can and often do pay for the termite work. They cannot pay for the report but when we paid \$8,000 for our termite clearance, the termite company graciously waived the \$75 for the report.

#### **VA Myth #7: The VA "Escape Clause" Gives the Veteran Super Powers**

Please never use this term. The proper name for this clause is the VA Amendment to the Contract and when you compare it to the appraisal contingency in the contract, you

will find that they are nearly identical and neither gives the VA buyer any superpower to flee the contract.

**VA Myth #8: Veterans Cannot Pay More for a Home Than it Appraises For**

It's America and if a Veteran loves the home, they most certainly can dig deep into their pockets to cover the difference between the appraised value and what the seller would like for their home.

**VA Myth #9: VA Appraisals Often Come in Low**

VA appraisers have no extra valuation criteria to consider with VA properties than they do for any other property. In fact, the VA has the Tidewater Initiative which requires the appraiser to do extra work if the value is going to come in low. Go VA!

**VA Myth #10: VA Transactions Require Ridiculous Repairs**

If you encountered one in the 1990's, you will be ecstatic to know that VA inspectors are no longer required. Instead, the appraiser ensures that the property appears safe, sound, and sanitary. So outdated, ugly, and slightly dirty will work for VA.

*(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.)*