

U.S. Department of Veterans Affairs

We have included the most recent information available at the date of publication. At the end of each section, we include a list of resources with web links where you can find updates, as well as information about additional programs and other helpful information related to the subject.

OVERVIEW

Part of the mission of the U.S. Department of Veterans Affairs (VA) is to enable service members, veterans, and eligible surviving spouses to become homeowners. The VA provides a home loan guaranty benefit and other housing-related programs to help buy, build, repair, retain, or adapt a home for owner occupancy. VA home loans are provided by private lenders such as banks and mortgage companies. By obtaining a guaranty for a portion of the loan, private lenders are able to provide borrowers with more favorable terms, such as zero down payments.

The home loan guaranty program was originally enacted in 1944 as part of the Servicemen's Readjustment Act to put people returning from fighting in the World Wars on a path to financial stability, since they may have missed the opportunity to build favorable credit while away serving their country. It was a significant driver of the postwar construction boom. Legislation has been continually updated to reflect the changing needs of the nation's service members and veterans.

There are approximately 20 million veterans in the United States. The National Center for Veterans Analysis and Statistics (NCVAS), a division of the U.S. Department of Veterans Affairs, offers data on the distribution of the veteran population that may be of interest to community banks looking to start a VA home loan program. Unfortunately, public data about the geographic distribution of homes guaranteed by VA are limited because all loan guarantee expenditures are recorded as coming from the processing facility in Texas. VA reports that approximately 2.3 million service members and veterans are actively participating in VA

home loan programs, which does not include veterans who have paid off their VA-guaranteed mortgages. According to a 2010 survey by NCVAS, 66 percent of those surveyed who had ever had a home loan used VA guaranteed financing. Of those who had not used VA home loan benefits, 33 percent did not know about the program.

IMPORTANT PROGRAM COMPONENTS

Eligibility for VA homeownership programs is mostly determined by meeting minimum standards for length and time of service, which is confirmed by VA with a Certificate of Eligibility. Each veteran has a guaranty entitlement, which is a minimum of \$36,000 and a maximum of 25 percent of the county loan limit. The guaranty is the amount VA will pay the lender in the event of a foreclosure. The guaranty effectively takes the LTV ratio down to 75 percent, and negates the need for a down payment.

VA loan limits are the same as the loan limits for Fannie Mae and Freddie Mac single unit loans. Each veteran has a guaranty entitlement, which is a minimum of \$36,000 and a maximum of 25 percent of the county loan limit. VA does not set a maximum amount that an eligible veteran may borrow; however, borrowers may combine their entitlement with a down payment to purchase a property that is over the county loan limit (see Resources), though such loans are more limited in their secondary market options.

The VA also offers grants for disabled service members and veterans with certain permanent and total service-connected disabilities to help purchase, construct an adapted home, or modify an existing home to help

them live more independently. For example, the Specially Adapted Housing grant is designed to facilitate independent, barrier-free living for veterans with severely impaired mobility (note that these grants are not included in this Guide, but more information can be found in Resources at the end of this section).

Prospective borrowers with other-than-honorable discharges are ineligible for VA home loan benefits and a number of other VA services. The Military Law Task Force of the National Lawyers Guild, a service provider unaffiliated with the federal government, may be able to connect the prospective borrower with community organizations that work on discharge upgrades.

This Guide covers the following VA home loan programs:

Home Purchase Loan: This program helps service members, veterans, and surviving spouses by providing a mortgage guarantee for loans that can have a loan-to-value (LTV) ratio as high as 100 percent.

Interest Rate Reduction Refinance Loan (IRRRL): The program offers special flexibilities for borrowers wishing to refinance to reduce the interest rate on their VA-guaranteed mortgage.

DOING BUSINESS WITH VA

Benefits

The VA home loan program features flexible yet prudent requirements. VA lending volume has increased considerably as lenders have responded to mortgage market shifts to rely more on government risk-reduction programs. VA can help community banks serve their veteran customers with options designed especially for their needs. Moreover, banks may begin participating in the program almost immediately and can increase capacity over time through experience.

Delivery Options

Becoming a supervised VA lender with automatic authority

Automatic authority is the authority for a lender to close VA guaranteed loans without the prior approval of VA. Supervised financial institutions, which includes banks insured by the FDIC (as well as credit unions) are granted automatic underwriting authority from VA and may begin making VA loans as soon as they become familiar with the laws, regulations, and procedures pertaining to VA-guaranteed loans. Supervised lenders may close loans in any state. While banks are automatically granted authority to make VA loans, they must nevertheless apply to the VA before they begin making VA-guaranteed loans.

PROGRAMS IN THIS SECTION:

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Automatic authority does not cover several loan types that must be submitted to VA before approval in all instances. VA loan types that require prior approval include joint loans,⁴ loans to veterans in receipt of a VA nonservice-connected pension, loans to veterans rated as requiring a fiduciary by VA, IRRRLs made to refinance delinquent loans, manufactured homes not permanently affixed to the lot, unsecured loans, and supplemental loans.

Originating VA loans as a correspondent originator through an approved lender sponsor

Smaller lenders can use an agent relationship, where an existing VA approved lender “sponsors” an entity as its agent and in doing so spells out what functions the agent will perform on its behalf. A lender’s agent must be approved by VA in advance. Depending on the terms of the VA-required corporate resolution, which spells out functions of the agent and sponsor, the agent and/or lender may fund loans in its own name and then sell the loans to investors, who in turn, sell the loans into the secondary market. Loans may be closed in the name of the sponsoring lender or in the name of the entity acting as the agent. In such a case, loan documents may read “ABC Mortgage as agent for XYZ lender.” Both supervised and non-supervised lenders with automatic authority may use agents, though in all cases recurring use of agents must be recognized by VA. The VA Lender’s Handbook contains more information on agent issues.

Selling VA loans

Unlike Fannie Mae and Freddie Mac, VA does not purchase and securitize loans. Instead, VA loans are delivered to the secondary market, most often through Ginnie Mae’s guaranteed mortgage-backed securities. Securities are issued by private financial institutions and payments to investors in these securities are guaranteed by Ginnie Mae, a government office within the U.S. Department of Housing and Urban Development (HUD). VA lenders can sell VA loans by:

- becoming a Ginnie Mae approved issuer (applicants must meet Ginnie Mae’s eligibility requirements, including capital and liquidity requirements);
- selling VA loans to Fannie Mae or Freddie Mac;

- selling VA loans to third-party Ginnie Mae approved industry conduits or aggregators, including certain Federal Home Loan Banks and state housing finance agencies.

APPROVAL PROCESS

All FDIC-insured lenders are automatically approved to write VA loans. However, they must notify the VA office in their jurisdiction, provide some basic information, and comply with all VA requests for additional information. VA will then provide training, a VA ID number, a point of contact, and anything else deemed necessary. Supervised lenders may close VA loans on an automatic basis immediately.

SYSTEM REQUIREMENTS AND QUALITY CONTROL

Initial program training is offered once the lender applies to VA. Ongoing training may also be provided by VA if audit findings suggest the need.

VA does not have a proprietary automatic underwriting system (AUS). Instead, lenders may use any AUS approved by VA, such as Fannie Mae’s Desktop Underwriter® or Freddie Mac’s Loan Product Advisor®. VA extensively reviews the quality of the loans that bear their guarantee and will contact lenders with specific corrective actions if their loans fail to meet VA standards.

⁴ Note that spouses can co-sign on the loan and be included on the deed. In the event that a spouse does not want to co-sign on the loan, the veteran borrower and the non-borrower spouse must sign either the mortgage note or the mortgage deed. VA clarified this in Circular 26-16-01, https://www.benefits.va.gov/HOMELOANS/documents/circulars/26_16_1.pdf.

RESOURCES

Direct access to the following web links can be found at <https://www.fdic.gov/mortgagelending>.

VA Guaranteed Loan Processing Manual: Rules and regulations covering all aspects of the VA Single Family Housing Guaranteed Loan program.

http://www.benefits.va.gov/WARMS/M26_1.asp

VA Lender's Handbook: VA's guide for lenders that make VA guaranteed home loans.

http://www.benefits.va.gov/WARMS/pam26_7.asp

VA list of regional offices: Contact information for all VA regional offices.

http://www.benefits.va.gov/HOMELOANS/contact_rlc_info.asp

National Center on Veterans Analysis and Statistics: Information on the population distribution of veterans and home loan benefit usage.

<http://www.va.gov/vetdata/Maps.asp>

County-level loan limits

http://www.benefits.va.gov/homeloans/purchaseco_loan_limits.asp

Specific eligibility for adapted housing grants

<http://www.benefits.va.gov/HOMELOANS/adaptedhousing.asp>

Using VA's Home Purchase Loan Program

FDIC staff talked with community bankers about their participation in the U.S. Department of Veterans Affairs' Home Purchase Loan Program. The following are excerpts from these discussions.

The VA's Home Purchase Loan Program helps service members, veterans, and surviving spouses by providing a mortgage guarantee for loans that can have a loan-to-value (LTV) ratio as high as 100 percent.

Working with VA

Some markets have a concentration of veterans, making the VA program particularly attractive for banks in those areas. According to one lender, "Due to our institution's footprint and the state within which we operate, we have a large population of military families that we serve." He said that his bank offers the Home Purchase Loan Program as well as VA's Interest Rate Reduction Refinance Loan, which allows veterans refinancing to reduce the interest rate on VA-guaranteed loans.

This banker pointed out that it takes approximately six months to set up the programs due to the review process (certification) required by VA and the educational and training requirements necessary for the sales and operations staff. As with any program, training and communication is occasionally a challenge, one banker noted.

Selling loans to investor partners

One representative stated that he considers his bank a mini-correspondent for VA loans. It originates and processes the loans in its name, sends the loans to the investor to underwrite, and then closes the loans in its own name. The banker said that there are three elements to choosing a good investor partner: pricing, service, and overlays. The service component, primarily underwriting turnaround times, "is where we have to struggle as a small player."

Another banker said that his bank is a correspondent originator for VA loans. He went on to say that as a correspondent, often times, the borrowers who would qualify for VA would also qualify for one of the bank's other programs. However, the flexibility of the program has, in certain instances, aided borrowers who otherwise would not have qualified. He added that VA loans do not make up a large portion of the bank's originations. "Last year we originated about \$2.5 million of these loans; however, this year we are projected to increase this amount, and in our experience about 80 percent of these loans go to first-time homebuyers."

Benefits of Using VA with Other Veteran Subsidy Programs

One bank representative said that his bank looks for ways to provide the optimal amount of mortgage-related assistance for the veterans they serve by taking advantage of additional veteran housing loan subsidy programs offered by the Federal Home Loan Bank (FHLBank) of Atlanta. The Veterans and Returning Veterans Purchase program offer veterans up to \$7,500 toward down payment, closing costs, principal reduction, or rehabilitation assistance for the purchase or purchase/rehabilitation of an existing unit, typically structured as a forgivable five-year second mortgage with no interest or payments.

The FHLBank veterans' programs can be used with the VA home loan guarantee program or other conventional or portfolio products. "Programs like the FHLBank of Atlanta's Veterans and Returning Veterans Purchase program are a perfect match for small community banks. The \$1 million cap per bank may be too small for larger banks, but works for us."

Another banker said that his bank has been able to utilize the Texas Veterans Land Board (VLB) to help veterans finance land, home loans, and home improvement loans for eligible Texas veterans and active military members. The VLB was established in 1946 to make land available to veterans returning from World War II and has been active ever since.

Marketing the Home Loan Guarantee Program

To reach as many veterans as possible, one banker is planning a Veteran's Housing and Benefits Expo. The bank will convene other businesses, government sponsors, and veterans in one venue so veterans can learn about housing finance options available to them and about other government benefits and local business discounts for veterans. The banker explained that the Expo is the bank's way of promoting its business while also helping veterans in the area. He said, "We're a little bank with a little budget, but this is what we can do to make a difference in the community that's also going to help us grow this department at a faster than normal pace."

Another banker said that while his bank does not directly market VA loans at this time, its real estate partners, website, and locations throughout the state provide enough marketing to adequately spread the word about their VA program offerings.

Advice for other banks considering the VA Home Purchase Loan Program

When asked about advice for other banks, one of the bankers said, "I would recommend doing it. But be forewarned, there is a learning curve! (I can't lie about that.) Many of the documents and requirements are foreign at first and there are additional complexities and costs in finding the right staff to properly originate these loans. Eventually, however, this becomes less and less daunting. The key is training."