

# VA GUARANTY

## PURPOSE OF VA GUARANTY

To encourage lenders to make VA loans by protecting loan holders and lenders against loss, up to the amount of the guaranty, in the event the loan is terminated by foreclosure.

## AMOUNT OF GUARANTY

The maximum guaranty on a VA loan is the lesser of the veteran's available entitlement indicated on the Certificate of Eligibility (COE), or the maximum potential guaranty amount as shown in the table below. The maximum potential guaranty is \$104,250, if the veteran has full eligibility.\*

Loan Amount	Maximum Potential Guaranty	Special Provisions
Up to \$45,000	50% of the loan amount	Minimum guaranty of 25% on IRRRLs
\$45,001 to \$56,250	\$22,500	Minimum guaranty of 25% on IRRRLs
\$56,251 to \$144,000	40% of the loan amount, with a maximum of \$36,000	Minimum guaranty of 25% on IRRRLs
\$144,000 to \$417,000	25% of the loan amount **	Minimum guaranty of 25% on IRRRLs
Greater than \$417,000	The lesser of: ** <ul style="list-style-type: none"> <li>• 25% of the VA county loan limit, or</li> <li>• 25% of the loan amount</li> </ul>	Minimum guaranty of 25% on IRRRLs

**\*Note:** The veteran's basic entitlement amount is \$36,000. If the loan amount exceeds \$144,000, an additional amount of entitlement is available, for a maximum entitlement of 25 percent of the VA loan limit for a single-family residence (currently \$417,000 and \$625,500 in Alaska, Hawaii, Guam and U.S. Virgin Islands).

**\*\*Note:** Only the basic entitlement of \$36,000 is available to guaranty construction to permanent refinance, installment land contract loans and loans assumed by veterans at interest rates higher than that for the proposed refinance. Loans over \$144,000 will receive less than 25% guaranty.

\*Public Law 110-389 provides a temporary increase in entitlement for certain counties designated as "high cost". This increase is effective for loans closed between January 1, 2009, and December 31, 2011. **See higher cost county loan limits at [www.benefits.va.gov/homeloans/loan\\_limits.asp](http://www.benefits.va.gov/homeloans/loan_limits.asp).**

# TYPES OF LENDERS

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## SUPERVISED LENDERS

Commercial Banks, Credit Unions, or other lenders under the supervision of a Federal entity, such as FDIC or NCUA.

Have VA automatic authority by reason of being supervised.

No separate VA approval of automatic authority is required.

## NON-SUPERVISED LENDERS

Mortgage companies or other lenders not subject to mandatory periodic examination and supervision by a Federal entity.

Can be approved for prior approval authority, i.e. loan packages are submitted to VA for underwriting before closing.

May be granted automatic authority if they meet certain VA requirements.

## LENDER AGENTS

Lenders may designate other entities (correspondents, mortgage brokers, etc.) to perform loan-related functions on their behalf. VA will approve such relationships upon receiving a copy of the lender's corporate resolution and a \$100 processing fee.

Thus, a mortgage broker, without automatic authority, may originate VA loans for an automatic lender, with the automatic lender doing the underwriting on the automatic basis, if a VA approved agency relationship has been established.

If the lender uses an agent one time, or very infrequently (less than four times per year) it may authorize the agency relationship on a **loan-by-loan basis**, using the lender's certification on VA Form 26-1820.

***It is VA's policy to encourage the maximum possible use of automatic authority and LAPP authority.***

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## WHO IS ELIGIBLE?

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### Types of Service

ERA	DATES	MINIMUM SERVICE*
WWII	9/16/40 - 7/25/47	90 continuous days
Peacetime	7/26/47 - 6/26/50	181 days
Korean	6/27/50 - 1/31/55	90 days
Post-Korean	2/1/55 - 8/4/64	181 days
Vietnam****	8/5/64 - 5/7/75	90 days
Post-Vietnam (Enlisted)	5/8/75 - 9/7/80	181 days
Post-Vietnam (Officer)	5/8/75 - 10/16/81	181 days
Post-Vietnam (Enlisted)	9/8/80 - 8/1/90	2 years
Post Vietnam (Officer)	10/17/81 - 8/1/90	2 years
Persian Gulf	8/2/90 - undetermined	2 years or period called to active duty, not less than 90 days

OTHER ELIGIBLE PERSONS	MINIMUM SERVICE REQUIRED
Active duty member**	90 continuous days (181 during peacetime)
Active Reserve or National Guard	6 years in Selected Reserves
Unmarried surviving spouse***	No time requirement. Veteran must have died on active duty or from a service-connected disability.
POW/MIA spouse	Veteran must have been POW or MIA 90 days.

*\*A veteran who has served less than the minimum required period of service or was discharged because of a service-connected disability, may be eligible for home loan benefits. Other categories of exceptions can be found in Chapter 2, section 5 of the Lender's Handbook.*

*\*\*Certificate only valid while veteran remains on active duty*

*\*\*\*For IRRRLs only, the surviving spouse of a deceased veteran may do an IRRRL using the veteran's Certificate of Eligibility (if the spouse was on the loan with the veteran). The spouse, in this case, does not have separate entitlement.*

*\*\*\*\*For veterans who served in the Republic of Vietnam, the beginning date is February 28, 1961.*

## **ELECTRONIC CERTIFICATE OF ELIGIBILITY**

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This program allows lenders to input data about their potential veteran-borrower and obtain an eligibility determination, on some cases, in a matter of seconds. If eligibility is established, the lender prints out the certificate to submit with their guaranty package. This eliminates completing a paper application (VA Form 26-1880, Request for a Certificate of Eligibility), mailing it to the eligibility center and waiting for a reply by mail. If eligibility cannot be established, a refer message will instruct the lender to submit a completed VA Form 26-1880 electronically or via mail to VA for processing.

Lenders can access the electronic Certificate of Eligibility program at <http://vip.vba.va.gov>. The program is located in the WebLGY application.

If eligibility cannot be established, the lender will get a message saying the determination cannot be made. A reference number will be assigned (*keep the reference number for tracking purposes*). A refer message only means that further development is necessary. It does not necessarily mean the veteran is ineligible.

This application is intended for use by lenders who have the veteran's permission to obtain an eligibility determination for them. The use of the system will be monitored for security and administrative purposes and accessing the system constitutes consent to such monitoring.

Veterans can also apply for a COE online by visiting this link-  
[http://www.benefits.va.gov/homeloans/docs/veteran\\_registration\\_coe.pdf](http://www.benefits.va.gov/homeloans/docs/veteran_registration_coe.pdf)

## ADVANTAGES OF VA GUARANTEED LOANS

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- No down payment required – unless the purchase price exceeds the reasonable value of the loan is a GPM.
- Loan Maximum may be up to 100 percent of the VA established reasonable value of the property. However, due to secondary market requirements, lenders will generally not make loans in excess of the VA loan limits which can be found at <http://www.benefits.va.gov/homeloans/>.
- Flexibility of negotiating interest rates and discount points with the lender.
- No monthly mortgage insurance premium to pay.
- Limitations on the buyer's closing costs.
- A Notice of Value that informs the buyer of the property value.
- Loan terms up to thirty-years with a choice of repayment plans:
  - \* Traditional fixed payment: Constant principal and interest; increases or decreases may be expected in property taxes and homeowner's insurance coverage.
  - \* Graduated Payment Mortgage (GPM): Consists of low initial payments that gradually rise to a level payment starting in the sixth year.
  - \* Growing Equity Mortgages: (*Available in some areas*) Consists of gradually increasing payments with all of the increase applied to principal, resulting in an early payoff of the loan.
  - \* Hybrid Adjustable Rate Mortgage (HARM): Effective until 9/30/12.
  - \* Traditional Adjustable Rate Mortgage (ARM): Effective until 9/30/12.
- For most VA loans for proposed construction, construction is inspected at appropriate stages to ensure compliance with the approved plans
- An assumable mortgage, subject to lender or VA approval of the assumer's credit and income.
- Right to prepay loan without penalty.
- VA performs personal loan servicing and offers financial counseling to help veterans avoid losing their homes during temporary financial difficulties.

\*See our website ([www.benefits.va.gov/homeloans/loan\\_limits.asp](http://www.benefits.va.gov/homeloans/loan_limits.asp)) for high cost county limits.

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## **ADVANTAGES OF VA'S AUTOMATED SYSTEMS\***

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### **TAS** - The Appraisal System

- ~ Appraisals and case numbers can be obtained 24 hours a day.
- ~ Lender controls information input.
- ~ Not affected by VA office hours or government shutdowns.
- ~ Check status, including foreclosures.

### **LAPP** - Lender Appraisal Processing Program

- ~ Appraisal goes directly to lender for review
- ~ No wait for VA Staff Appraiser to review.
- ~ Lender controls timeliness.

### **Automatic Processing**

- ~ No need to send loan application to VA for underwriting.
- ~ Lender underwrites and closes loan, with the exception of those loan types requiring prior approval from VA. \*\*

### **WebLGY**

- ~ Certificate of Eligibility (COE) requested and obtained
- ~ Order Interest Rate Reduction Refinance Loan (IRRRL) case numbers
- ~ Lender generates Loan Guaranty Certificate (LGC)
- ~ Internet-based system

\* All of these applications are located on the Veterans Information Portal at <https://vip.vba.va.gov>.

\*\* Reference: VA Lenders Handbook, Chapter 5, Topic 4

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# **ELIGIBLE LOAN PURPOSES AND LOAN TYPES**

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## **VA loans may be used for the following purposes:**

- ~ To buy an existing home, including a townhouse or condominium unit in a VA-approved development.
- ~ To build a home
- ~ To simultaneously purchase and improve a home
- ~ To improve a home by installing energy-efficient features
- ~ Cash-out refinance
- ~ Reduce the interest rate (Interest Rate Reduction Loan or Streamline) on an existing VA loan
- ~ Hybrid Adjustable Rate Mortgage
- ~ Adjustable Rate Mortgage
- ~ Convert an adjustable rate mortgage (ARM) to a fixed rate mortgage
- ~ To purchase a multi-family property (up to four units). The veteran must occupy one of the units as his or her primary residence.

## REFINANCE COMPARISON

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	<b>Regular Refinance (Cash-out Refinance)</b>	<b>IRRRL VA Streamline Refinance</b>
<b><i>Statutory authority</i></b>	38 U.S.C. 3710(a)(5)	38 U.S.C. 3710(a)(8)
<b><i>Entitlement required</i></b>	Yes (must have sufficient available entitlement)	No (re-uses entitlement from existing VA loan)
<b><i>Cash out allowed?</i></b>	Yes	No
<b><i>Loan limit</i></b>	100% of NOV + funding fee + up to \$6,000 for energy efficient improvements	Payoff of prior VA loan + allowable closing costs + funding fee + up to \$6,000 for energy efficient improvements
<b><i>Must veteran own property?</i></b>	Yes	Yes
<b><i>Must veteran occupy property?</i></b>	Yes	No (must have occupied at one time)
<b><i>Maximum loan term</i></b>	30 years + 32 days	Existing VA loan term + 10 years (not to exceed 30 years + 32 days)
<b><i>Maximum interest rate</i></b>	Any Negotiated Rate	Rate must be lower than rate on existing VA loan, unless refinancing from an ARM to a fixed rate
<b><i>Lien of record required?</i></b>	Yes	Yes
<b><i>OK to refinance other liens?</i></b>	Yes	No
<b><i>Appraisal required?</i></b>	Yes	No
<b><i>Credit package required?</i></b>	Yes	No, unless three months delinquent
<b><i>OK for automatic processing?</i></b>	Yes, automatic lenders	Yes, all lenders, unless existing VA loan is delinquent

Reference: VA Lenders Handbook, Chapter 6

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# PROPERTY ELIGIBILITY

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## Existing Construction

Single family or multi-family (up to four units) dwellings\* that:

- Have been fully completed for one year, or
- Have been previously owner occupied, and
- Meet VA Minimum Property Requirements (MPRs)

## New Construction

Property must be 100% complete or 100% complete through customer preference items (i.e. appliances, countertops, carpet installation). No compliance inspection is required.

Newly constructed properties (completed less than one year and never owner-occupied) are eligible if either

- Covered by a one-year VA builder's warranty,
- Enrolled in a HUD-accepted ten-year insured protection plan, or
- Built by the veteran as the general contractor, for his/her own occupancy.

## Proposed or Under Construction

Property is eligible for appraisal prior to construction or during construction if

- Appraisal is based on proposed construction exhibits, and
- Builder must offer a one-year VA builder's warranty.
- Manufactured homes must be attached to a permanent foundation and be taxed as real estate.

**Note:** VA accepts the construction inspections performed by the local authority. Refer to VA Circular 26-06-1, dated February 16, 2006, for complete details.

# PROPERTIES NOT ELIGIBLE FOR VA LOANS

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## Ineligible Properties

- ✘ Does not meet Minimum Property Requirements (and cannot be made to comply)
- ✘ Located in Flood Hazard area where flood insurance is not available
- ✘ Located in the Coastal Barrier Resource System
- ✘ Proposed or new construction located in Airport Noise Zone 3 (high noise)
- ✘ Located in unapproved Condominium Developments (Condo)
- ✘ Cooperatives

**Note:** *The VA Minimum Property Requirements (MPRs) can be found in Chapter 12 of the VA Lender's Handbook located at [www.warms.vba.va.gov/pam26\\_7.html](http://www.warms.vba.va.gov/pam26_7.html). Questions about property eligibility (if not specifically addressed in the MPRs) should be directed to the Construction & Valuation section of the regional loan center having jurisdiction of the area where the property is located.*

## THE APPRAISAL SYSTEM (TAS)

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- ☞ TAS is Internet based, and reached via the Internet Service Provider of user's choice.
- ☞ Appraisal assignments are based on the mailing address of the property, including the county name.
- ☞ In addition to obtaining VA case numbers and having appraisers assigned, lenders or brokers may check the status of appraisal requests and use the property address or veteran's name to search for a misplaced case number.
- ☞ Fee appraisers are able to access TAS to review and update their basic reference file information, such as mailing address, telephone numbers and email address. They are also able to review information about their pending assignments (e.g. property address, VA case number, appraisal requester information and the current status of each assignment).
- ☞ TAS can be accessed at the following Internet address:

<http://vip.vba.va.gov>