LIGHTBULB PRESS

VETERANS HOME BUYING GUIDE

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DEFENSE CREDIT UNION COUNCIL

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To Our Nation's Veterans and Their Families

On behalf of the Defense Credit Union Council and our member credit unions, we would like to take this opportunity to express our sincere gratitude for your selfless service to our nation. To show our appreciation, we are pleased to provide you with this copy of ***Veterans Home Buying Guide*** to help you understand the home buying process and how it applies to you as a veteran.

We understand making a large purchase can be both exciting and overwhelming. It is our hope that this guide will help you understand the process and manage expectations during each phase of the home-buying experience. We also explain why it is important to know your options along with offering practical information for meeting both your immediate and long-term financial goals. We want you to succeed in finding a home where your family is safe, secure, and happy!

While the booklet is designed to be informative and to answer questions you may have about the home buying process, we highly recommend that you seek a military-connected realtor as well as a qualified mortgage lending officer to discuss your home buying goals and concerns. In addition, we suggest you make use of all the resources mentioned in the guide and that you look to these reliable sources to gain timely and actionable information.

We wish you all the best as you search for and find a new home. Once again, thank you for your courageous service to our great nation!

Sincerely,

Anthony R. Hernandez
President and Chief Executive Officer

Serving Those Who Serve Our Country

VETERANS HOME BUYING GUIDE

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Planning to Buy

There are many reasons you may be thinking about buying a new home. You might be ready to leave active duty or change jobs, you may have recently married or divorced or outgrown the place you currently live. You may want to enroll your children in a different school district. Perhaps you're tired of renting and you'd like to put down roots in a community. Is this the right time for you to buy? That's a question you need to consider.

CHECK THE RATES
You can get a sense of the average interest rates lenders are offering on mortgage loans in the current market at www.bankrate.com.

Check the rates
www.bankrate.com

INVESTIGATE THE COST

If you're thinking seriously about buying, begin by determining what you can afford to spend. Using your current rent or mortgage payment as a base, figure out how much more of your budget you can allocate to housing while having enough income to cover your other needs.

Since like most people, you probably don't have the cash on hand to buy a home outright, you'll need to borrow much, or sometimes all, of the purchase price and repay it over time in monthly mortgage loan installments. An important guideline is that most mortgage lenders require that your payments will be no more than 28% of your gross household income, though there may be a little bit of wiggle room.

If you're renting now, remember that owning means you'll owe real estate taxes and home insurance premiums, which are typically added to your loan payment. As a homeowner you're also responsible for costs that may have been covered in your rent, including utilities, water, and home maintenance. Those aren't included in mortgage payments but should be part of your calculation.

There's one cost most veterans don't have to worry about. That's having enough cash to make a down payment when you buy. With conventional mortgage loans, you need 20% of the purchase price. But down payments are required in only about 10% of the loans that the VA guarantees.

REVIEW YOUR CREDIT STANDING

Before lenders approve mortgage loan applications, they want to be sure the loans will be repaid. Among the primary tools they use are your credit history, including your credit score. Both reflect information in the credit reports compiled by the three national credit reporting companies: Equifax, Experian, and TransUnion. Some, but not all, lenders require a minimum credit score, typically in the 620 range.

You have access to the same credit reports a lender does, and it's important to review at least one of them about six months before you plan to buy.

If you find errors that could damage your standing, you should try to have them resolved before applying for a mortgage loan. Each credit company's website explains the procedure to follow and what your rights are if the errors are not corrected.

UNDERSTANDING APR
What a mortgage loan will cost you depends on the **annual percentage rate (APR)** you pay the lender. The APR includes the interest rate plus all the fixed fees that apply. When you're ready to choose a lender, compare the APRs they offer, not the interest rates, to get a more accurate picture of the cost.

STEPS TO BUYING

It helps to know what to expect when you're ready to buy. The major landmarks are identified in the list below. And while you should be prepared to encounter some hurdles, the path you'll follow is well established. You're responsible for handling some of them yourself and your agent or an attorney will handle the others.

If any of the correct information is negative—for example, a history of late payments, missed payments, using more than 30% of your available credit, or loans on which you defaulted—you may want to work at improving the way you use credit before you apply. If you do move ahead, you should be prepared to explain why you have used credit this way.

Finally, if you're serious about buying, an important piece of advice is not to make any job changes or major purchases between now and when you've completed the purchase. You'll also want to avoid applying for new credit cards or opening lines of credit. Any of these might send a negative signal to a potential lender.

CHECK IT OUT
The best way check your credit report totally free is to go to annualcreditreport.com and follow the prompts, call 877-322-8228, or fill out the Annual Credit Report request form and mail it to Annual Credit Report Request Service, PO Box 105281, Atlanta, GA 30348-5281.

Annual Credit Report
www.annualcreditreport.com

YOUR CREDIT SCORE

Some credit unions, banks, and credit card issuers make your credit score available for free, with no strings attached. Paying to see your score or agreeing to have a third party monitor your credit for access to your score doesn't make sense. Among other reasons, the score you see isn't the same one a lender sees. If you always pay your credit bills on time, keep your borrowing below 30% of your available credit, and haven't applied for substantial new credit recently, your credit score should pass the lender's test.

1. Apply for a certificate of eligibility (COE) from the VA
2. Find a buyer's agent to represent you
3. Secure a preapproval letter from a lender
4. Identify the home you want to buy and make an offer
5. Schedule an inspection*
6. Negotiate and sign a contract
7. Submit loan application
8. Lender orders VA appraisal
9. Arrange for title search and home insurance
10. Lender approves loan
11. Set settlement date
12. The closing

*Local custom may affect timing

The VA Home Loan Program

The VA home loan program is one of the most attractive benefits the government offers. It allows veterans to buy a home, usually with no down payment, low closing costs, no loan limits, no personal mortgage insurance (PMI), no prepayment penalty, and a competitive interest rate. All the VA requires in return is a commitment to make the property you purchase your primary residence and, of course, to repay your loan.

The VA home loan program has enabled more than 25 million active-duty service members and veterans to buy homes of their own since 1944. There were 1.2 million of them in 2020 alone.

The benefit is called a *home loan program* for a reason. The VA—with one exception—doesn't actually offer loans. What it does is guarantee the mortgage loans that veterans take through conventional lenders—credit unions, banks, and mortgage lenders. It promises those lenders that the VA will pay up to 25% of the loan amount if a borrower defaults, or stops paying off the loan, and the loan is foreclosed. Foreclosure means the lender repossesses, or takes back, the property to recover some of its loss.

Without a guaranty like the one the VA provides, a lender typically requires a down payment, often 20% of the loan amount—for example, $60,000 on a $300,000 loan. Coming up with enough cash to meet that hurdle makes home-ownership impossible for many. Even if a lender will take a smaller down payment, the buyer must pay for private mortgage insurance (PMI) until 20% of the loan has been paid.

Because of the VA guaranty, many lenders are willing to offer mortgage loans to eligible veterans. What's more, the **annual percentage rates (APRs)** lenders offer under this program are typically lower than those offered to other buyers with comparable financial qualifications but no guaranty. And, of course, the lower the rate you pay on your loan, the less borrowing costs you. That's a second bonus.

COUNTY PROPERTY LIMITS

Before 2020, you may have been required to make a down payment, even with full entitlement, if your mortgage loan exceeded the dollar limit for the county where the property is located. Those limits are set by the Federal Housing Finance Agency (FHFA). In 2024, it's $766,550 in most counties but higher where the average real estate prices are higher, such as in major cities and their suburbs.

ELIGIBILITY FOR LOAN PROGRAM

To be eligible for the home loan program, you must have met the minimum active-duty service requirement based on when you served. In brief, that's 90 days if you served in the Korean or Vietnam war period, 181 consecutive days if you served between 1975 and 1980/1981, and 24 consecutive months if you served since. There are slightly different start dates for enlisted personnel and officers, and exceptions if you were discharged because of a disability or other reasons over which you had no control.

As a veteran, your eligibility also depends on what's known as the character of your service, indicated by your discharge status.

If you believe you're eligible, you should file for a **certificate of eligibility (COE)**, providing a copy of your discharge papers (DD214). You can handle the request online or by calling 877-827-3702, or by mail using VA Form 26-1880. Alternatively, if you're already in touch with a lender who makes VA mortgage loans, that lender can file for you.

COE Request
www.va.gov/housing-assistance

FULL ENTITLEMENT

When you're eligible for a VA loan guaranty, a key question is "How much can I borrow?" The short answer is that there's no cap, or maximum, for qualified buyers with **full entitlement**, thanks to the Blue Water Navy Vietnam Veterans (BWN) Act of 2019. One of its key provisions is that the VA requires no down payment, whatever the size of a mortgage loan your lender agrees to give you.

You have full entitlement if you haven't participated in the loan program before. That's also the case if you've fulfilled your obligation under a previously guaranteed loan, meaning:

- You **paid off** a previous loan in full and sold the home.
- You **repaid in full** any amount it cost the VA to meet its guaranty obligation on a home of yours that was foreclosed or disposed of in a short sale. A short sale occurs when a home is sold at a price lower than the outstanding balance due on the mortgage loan.
- Another qualified veteran has **assumed**, or taken over, your loan and substituted his or her entitlement for the original loan amount.

If you have met one of those conditions, you can apply to reuse your entitlement at www.va.gov. You can use your DS logon or create a new account with ID.me, downloading VA Form 26-1880, and sending it to a VA Regional Loan Center in your state. The 05 code on your new COE means your full entitlement has been restored.

PARTIAL ENTITLEMENT

If you have **partial entitlement**, on the other hand, you may qualify for a full new loan guaranty or use your remaining entitlement in combination with a down payment to buy a home. Here's an example:

Suppose you own a home purchased with a $300,000 mortgage loan guaranteed by the VA. Based on 2024 numbers, in a county with a $766,550 loan limit, your remaining partial entitlement would be $466,550. That's the difference between the current county loan limit and the amount of the previous mortgage loan. If you requested a new $300,000 mortgage, the VA would guarantee 25% of that amount since your remaining entitlement is large enough.

But if you wanted to borrow $500,000, that amount would exceed your remaining entitlement of $466,550 by $33,450. You would need to make up part of the difference so that the total guaranteed amount is 25% of the $500,000.

DISABILITY HOUSING GRANTS

The VA provides special housing benefits for veterans with permanent and total service-connected disabilities, including:

- Specially Adapted Housing (SAH) and Special Housing Adaptation (SHA) grants. They provide funding to construct, modify, or purchase a home that enables you to live independently or accommodates your disability.
- Temporary Residence Adaptation (TRA) grant. If you qualify for a SAH or SHA grant, and are living temporarily in a family member's home, a TRA grant provides financial support for structural modifications to accommodate your needs.

You can find out more about SAH and SHA grants and submit an application at www.va.gov/disability-housing-grants/how-to-apply/. You can also apply by mail by downloading and completing VA Form 26-4555 or in person at your VA Regional Office.

SAH and SHA application
www.va.gov/housing-assistance/disability-housing-grants/how-to-apply/

OTHER LOAN OPTIONS

Mortgage loans guaranteed by the VA are the first choice of most veterans. But there are other cost-saving alternatives you may want to consider. You may qualify for a Federal Housing Administration (FHA) mortgage or a Department of Agriculture mortgage if you're buying in rural or certain suburban areas. There are additional government programs, especially for first-time buyers. You can search online for possible opportunities in the state or city where you hope to buy using phrases like "Maryland programs for first-time home buyers."

RESTORATION OF YOUR ENTITLEMENT

If you repaid a previous VA mortgage loan in full but still own that home and want to keep it, you can apply for a one-time restoration of your full entitlement. In that case, the code on your COE will be 06.

Finding a Real Estate Agent

When you're ready to buy, it's time to find a licensed real estate agent to help you find, choose, and purchase a home. Unless a property you're interested in is for sale directly by the owner (FSBO), all interactions between you and the seller are handled by professionals representing you. In fact, you may never meet the seller.

You search for an agent the way you search for other professionals.

- Ask friends and family for recommendations, especially if they've used a VA loan guaranty to buy their home.
- Visit or call local real estate companies to ask about their experience with veterans who want to buy.
- Conduct interviews with potential agents to confirm their experience with VA-guaranteed purchases.
- Select an agent with whom you'll be comfortable working.

WHAT AN AGENT DOES

A real estate agent can represent either a buyer or a seller in a particular transaction. If you choose an agent to represent you—as the great majority of buyers do—that buyer's agent represents only your interest. A seller's agent, also called the listing agent, represents the seller. If you don't have an agent of your own, you look at homes with and make offers to the listing agent.

Some states allow dual agency, which means it's legal to represent both the buyer and the seller in the same transaction, though strict conditions may apply. In other states, dual agency is illegal because of the potential conflict of interest.

In a limited number of states you must sign a contract, called an agency agreement, with your buyer's agent. In the rest, a contract is optional though an agent may request one. Basically, the contract commits you to working with the agent exclusively, insuring that if you buy, the agent will be paid. Typically, these contracts last about 90 days, though some agents may ask for a longer period. You should have an escape clause that lets you terminate the contract if the agent fails to perform or does something not in your best interest.

As a buyer, you don't pay a fee or commission for your agent's help. Instead, the agent earns a percentage of the fee the seller pays the listing agent. (This arrangement, however, is the focus of several current lawsuits claiming the practice is unfair to sellers. So the practice may change.)

What a Buyer's Agent Does	What a Seller's Agent Does
Has legal obligation to buyer	Has legal obligation to seller
Arranges showings of appropriate properties	Suggests listing price
Assists with financing and insurance	Creates and uses marketing materials and conducts open house to attract buyers
Keeps bargaining position confidential	Keeps bargaining position confidential
Negotiates best price and terms for buyer and helps keep sales process on track	Negotiates best price and terms for seller and helps keep process on track
Negotiates issues raised by inspection	Negotiates issues raised by inspection
Helps manage the closing, sometimes called the settlement	Must provide buyer with all known issues with property to enable an informed decision

WHAT'S IN A NAME

While *real estate agent* is the general term for someone who helps clients buy or sell homes, some identify themselves as realtors and others as brokers. The chief differences among these designations are the type of license the individuals hold and the types of responsibilities they assume.

Realtors and brokers belong to the National Association of Realtors, which has a code of ethics for its members to follow. Realtors can act as property managers and appraisers as well as agents. Brokers are qualified to own their own real estate agency and employ other agents.

PREAPPROVAL

The first piece of advice your agent is likely to give you is to secure **preapproval**. He or she may even insist you do so before showing you properties. To be preapproved, you apply to a mortgage lender before you start searching for a home rather than waiting until you've found the place you want to buy.

Your agent's experience working with other veterans can serve you well by pointing you to lenders who have offered VA mortgages at competitive rates. You select one or perhaps two lenders and submit an application with the supporting evidence the lender requires, such as evidence of regular income.

After analyzing your request, the lender will let you know whether or not you will qualify for a mortgage loan. If you're approved, you'll receive a letter confirming that decision and stating how much you'll be able to borrow. A preapproval is usually valid for 60 to 90 days.

You pay a fee when you apply for preapproval. But, despite the cost, preapproval is a wise move. Not only do you have a clear understanding about how much you can spend. Preapproval also makes you a more attractive buyer, as the seller can be confident you will have financing to back up your offer.

Another approach is to seek **prequalification**. It can be quicker and cheaper than preapproval. But all you receive is a confirmation that you will probably be approved to borrow a certain amount. There is no commitment and no bargaining power with the seller.

ARE YOU A FIRST-TIME BUYER?

First-time buyers can take advantage of cash rebates and other incentives, such as mortgage loans with discounted interest rates, government or private foundation grants, and tax breaks to make buying a home easier. But you need to know what those incentives are and how to take advantage of them. That's where an experienced real estate agent who knows about these incentives and how to apply for them can make an enormous difference in your ability to purchase a home.

Finding a Home

As you begin your search, a key question is what you are looking for in a home. The VA guaranty applies for almost any type you choose, from single family or multifamily properties to mobile or manufactured homes. You can also get a loan guaranty to build a new home or improve or modify an existing home.

SETTING YOUR GUIDELINES

Pinpointing the type of home you hope to buy is a balancing act between what you'd like to own and what you can afford. You can get a sense of what is available—types of homes and prices—in communities where you hope to buy from your agent or on real estate websites like Zillow.com, Trulia.com, or Realtor.com.

As a next step, you'll want to decide what you absolutely need in a home and what you'd like to have but probably can get along without. That involves clarifying your priorities.

For example, if you have children or plan to start a family, living in a good school district is likely to be a priority. If you commute to work, living within a reasonable distance of reliable public transportation may be extremely important. But communities with either or both good schools and an easy commute are likely to be more in demand, and therefore more expensive, than areas without those features.

Other possible considerations are the number of bedrooms, whether you need space for a home office, or whether the home provides, or could be adapted to provide, accessibility for a family member who needs it.

It's essential to share your needs and your wants with your agent before the actual home search begins. This information, in conjunction with the agent's analysis of your financial situation, will determine the types of properties you visit.

HOW THE SEARCH PROCESS WORKS

Sellers, using a listing agent, put their homes up for sale at the best—meaning the highest—price they think someone will pay for it in the current market. Homes don't have fixed prices, and it's typical to find similar homes with different asking prices in the same or nearby neighborhoods.

Most homes for sale are included in the local Multiple Listing System (MLS), which means that any licensed real estate professional—including your buyer's agent—can show the home to prospective buyers.

THE REAL ESTATE MARKET

Home prices are negotiable, but your bargaining power depends on the level of activity in the real estate market where you hope to buy, the number of homes available in your price range, and sometimes how eager a seller is to make a deal.

In an active real estate market, homes sell almost as quickly as they go on sale. Successful buyers are often those who offer the price the seller is asking—the list price—or sometimes a higher amount. In a slow market, though, fewer houses are available, they're on the market for longer, and the successful bidder may offer less than the list price.

Another way to describe what's happening with home sales is differentiating between a **buyer's market** and a **seller's market**. The difference depends on the relationship between supply and demand.

In a buyer's market, there are homes for sale but not many interested buyers. That gives buyers an advantage. Sellers may reduce their asking price or be more willing to negotiate, especially if they're eager to sell.

In a seller's market, on the other hand, there are more buyers than there are available homes. Asking prices tend to be higher, competition is more intense, and buyers have little negotiating power.

Among the advantages of working with an experienced real estate agent is that he or she will be attuned to the market in the neighborhoods where you are interested in living and can advise you on a workable approach.

MAKING AN OFFER

There's no way to predict how long your search will take. But when you find the home you want, you work with your agent to determine a **bid**, or price offer, that the agent will pass on to the seller's agent. There may be several rounds of back-and-forth on the price, which the agents handle. Your agent will consult with you at each step and offer advice on the next move. For example, he or she will know the prices of comparable homes that have sold recently in the same neighborhood and may have a sense about how eager the seller is to move out.

TYPES OF LOANS

The VA program includes a variety of loan types you can use to meet different housing or financing needs.

Purchase loan	Lets you buy a single-family home, townhouse, or multi-family dwelling with up to four units, an approved condominium, or a manufactured home and its lot. Other loans in this category let you build a new home, improve, alter, and repair a home you're buying, or modify a home you're buying to make it more energy efficient.
Interest rate reduction refinance loan (IRRRL)	Allows you to take advantage of an interest rate lower than the one you're currently paying. Or you could use an IRRRL to switch from an adjustable-rate mortgage to one with a fixed rate. There's less documentation—no credit, income, or employment checks—and you may not need an appraisal. Closing costs tend to be lower and can be rolled into the new loan to save on up-front costs.
Cash-out refinance loan	Lets you withdraw some of the equity you have in your home for another purpose, such as altering or upgrading the home or paying off other debt. You might want to discuss this option with a financial adviser before acting.
Native American direct loan (NADL)	Is available to you if you're a Native American veteran, an eligible spouse, or a veteran married to a Native American. You use it to buy, build, or improve a home on Federal Trust Land. A unique feature of an NADL is that the VA is the actual lender, not the guarantor.

Signing a Contract

When you have found a home you want to own, you make an offer through your agent. The seller can accept it, or make a counteroffer that's somewhere between your bid and the asking price, or reject it.

If your offer is rejected, you can come back with a higher offer, setting off another round of negotiation. But it's essential not to bid more than you've been preapproved for. If the higher offer is accepted, you risk not being able to arrange financing or find yourself unable to keep up with the payments.

When you and the seller agree on a price, you make a small payment to back up your intention to buy. It's called earnest money, a binder, or a good-will payment depending on the state where you are buying. Be sure there's a clear understanding, ideally in writing, that you'll get your money back if the deal falls through.

ARRANGE AN INSPECTION

Once your offer is accepted, you should hire a qualified building inspector to evaluate the structure and its electrical, heating, plumbing and other systems and share the findings in a written report or checklist. Some but not all states require that home inspectors be licensed, and all have established requirements that inspectors are expected to follow.

An inspection report identifies problems that require immediate attention, such as cracks in the foundation, evidence of water leaks, substandard electrical wiring, aging heating systems, or a roof in need of repair. It also identifies features that are likely to need work in the foreseeable future, and those that are in acceptable shape.

It shouldn't be hard to find an inspector. If you're using a buyer's agent, the agent is a good source. Or you can ask friends and family members who have bought a home recently for a recommendation. You can also check the website of the American Society of Home Inspectors (www.homeinspector.org) for a list of qualified inspectors listed by zip code. The website is also a valuable source of information about what an inspection entails and the types of maintenance required to keep a home in good shape.

You'll want to confirm what the inspector will evaluate and what isn't covered. If possible, walk through the property with the inspector asking for explanations of what he or she is finding. That should help make it easier for you to explain to your agent or attorney the problems that must be resolved before you finalize the purchase.

American Society of Home Inspections
www.homeinspector.org

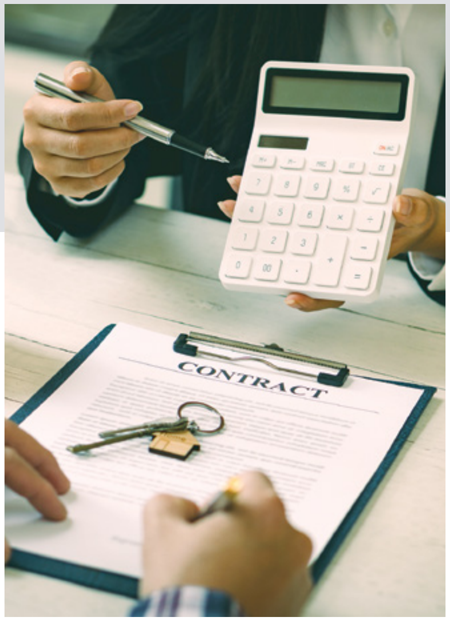
UNBIASED INSPECTIONS
It's a good idea to avoid using a home inspector recommended by the seller or the sellers' agent who has a vested interest in the sale being completed easily. That way you don't have to worry about potential conflicts of interest.

THE PURCHASE CONTRACT

When your offer on a home is accepted, the seller's agent or lawyer prepares a legal document, called a **contract**, that details the key terms of the transaction, including:

- The agreed upon sale price
- The property that is covered by that price, including appliances or furnishings
- The date the sale will be finalized
- What contingencies, or situations, would void the agreement, such as your inability to arrange financing by a certain date

Most of the language in the contract is standard—commonly called boilerplate—but there may be certain provisions that protect the interests of the sellers. For example, they may want to make the settlement date contingent on their being able to move into a new home.



GET EXPERT ADVICE

Before you sign the contract, it's smart—and probably essential—to have an experienced real estate attorney review and potentially modify the contract. You want to be sure its terms and conditions protect your interests, just as the sellers are protecting theirs. You don't want to agree to anything that could cost you extra time or money, or that might limit your rights if something doesn't work out.

For example, there should be a contingency, or escape, clause that allows you to withdraw your offer without penalty if the purchase price is higher than the mandatory VA appraised value and you can't work out a resolution. That appraisal follows being approved for a mortgage and sets the maximum price you can pay using the VA guaranty.

And, if it's customary in the area where you're buying to delay the inspection until after the contract is signed, you want the legal right to renegotiate the terms of the sale if serious flaws in the property are discovered.

You may want to ask your real estate agent, financial adviser, friends, or family to recommend a real estate attorney. Or if you have worked with an attorney in a different capacity, he or she may make a referral. The attorney may charge an hourly rate or a set fee calculated as a percentage of the purchase price.

Using the sellers' or lender's attorney may be a cost-saving alternative. But using someone who represents only your interest is worth the added cost.

FINALIZING THE DEAL

When the attorneys working with you and the sellers have agreed to the terms of the contract, you both sign the document. The process may have moved along quickly until this point, but since there are several parties involved and potential disagreements to be resolved, delays may occur at this stage of the process. In some states, the period before you sign the contract may be the last opportunity to revise your offer if, for example, the home inspection has turned up any problems that must either be resolved by the seller or that justify a lower price.

One risk you face is that until the contract is signed, the seller may receive a higher offer and reject yours.

A VA ADVANTAGE
With a conventional mortgage, you typically make a down payment of 10% of the purchase price when the contract is signed. That money is held in an escrow account until the sale is finalized, when it becomes part of the purchase price. But if you're using a VA loan guarantee, no down payment is required.

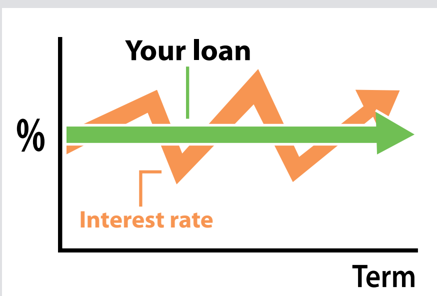
Types of Mortgage Loans

When you apply for a mortgage loan, the lender confirms the annual percentage rate (APR) that will apply. The underlying interest rate is determined by the current cost of borrowing, the type of loan, and the lender's view of your creditworthiness.

While you can't change the rate or the creditworthiness assessment, you can choose the type of loan. That will affect the amount of interest you'll pay and so the cost of buying. The main types are **fixed-rate, adjustable-rate (ARM)**, or **hybrid**, which combines features of fixed and ARM. However, if you're using a VA loan guaranty, your options are a fixed-rate or hybrid loan.

IT'S A PITI

The amount of a mortgage loan you repay each month includes not only principal and interest but also 1/12 of the insurance and taxes you owe on the property for the year. That combination of costs is typically expressed as PITI, which stands for Principal, Interest, Taxes, and Insurance.

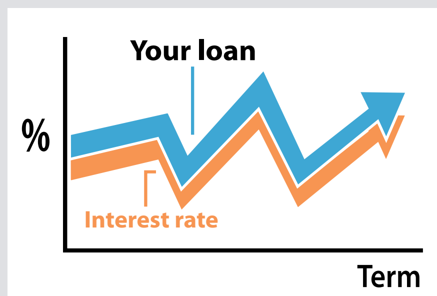


FIXED-RATE LOANS

A fixed-rate, or conventional, loan, has the same interest rate from the day you buy until you make the final payment. The lender calculates the total amount you owe by multiplying the interest rate by the principal and adding any fees that apply. That number is divided by the number of months the loan covers to determine what you'll repay in equal installments.

For example, a 6.5% interest rate on a thirty-year $200,000 mortgage would require a monthly payment of $1,264.14. Because you know from the start what repaying the loan will cost each month for as long as you own the home, it's easier to budget for this major expense.

The risk you take is that mortgage rates will drop while you're still paying off the loan and you'll be stuck with the interest you started with. But, in most cases, you can renegotiate the loan to take advantage of lower borrowing costs using a VA interest rate reduction refinance loan (IRRRL).



ADJUSTABLE-RATE LOANS (ARMS)

ARMs have a variable interest rate. The initial payment is determined in the same way that a fixed rate loan is. But the rate is reset on a regular schedule, such as once a year, to reflect changes in the cost of borrowing. Each time the rate changes, the new rate is multiplied by the unpaid principal to determine the amount you owe each month until the next reset date.

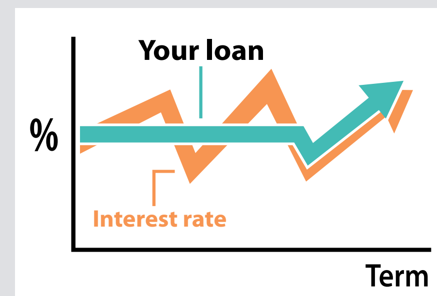
When an ARM adjusts, the lender determines the new rate using two measures: a **public index** and a **margin**, or predetermined rate, such as 1.5%, which is added to the index. It's a good idea to ask which index the lender uses. Some, such as the rate on a US Treasury issue, are more advantageous for borrowers than indexes that change more quickly or are less tightly regulated.

The initial interest rate on an ARM is lower than if you took a fixed-rate loan. The advantage is that a lower rate means smaller monthly payments and lower closing costs. It also makes it easier to qualify for a loan.

However, in evaluating whether you'll be able to afford the mortgage, the lender must calculate what your monthly payment would be at the highest possible rate it could possibly be within the first five years, not at what the rate is at closing.

THE EFFECT OF THE TERM ON A $200,000 LOAN

Monthly amount at different interest rates				
Term	3%	4.5%	6%	7.5%
15-year	$1,381	$1,560	$1,688	$1,854
30-year	$843	$1,013	$1,199	$1,398
Total payment over ther term of the loan				
Term	3%	4.5%	6%	7.5%
15-year	$248,609	$275,398	$303,840	$333,720
30-year	$303,556	$364,813	$431,640	$503,280



HYBRID LOANS

Hybrid mortgage loans, also known as hybrid ARMs, combine some of the more user-friendly features of fixed- and adjustable-rate loans.

Here's how they work. Hybrids offer a fixed interest rate for a specific period, such as three, five, or, in some cases, seven years. The rate is typically lower than it would be for a fixed loan, making it easier to qualify to borrow and more affordable. After the fixed period ends, the loan converts to an ARM and the rate changes at every adjustment date. For example, a loan described as a 5/1 loan has a fixed five-year term and then adjusts regularly, once each following year.

The lender will be able to increase your interest rate and so your monthly payment during the ARM period if borrowing costs increase. But if borrowing costs decrease, your rate may decrease too.

Before the switch to adjustable occurs, you may be able to convert your mortgage loan to a fixed-rate loan to avoid the uncertainty of future rate changes. You should ask if that's an option when you initially apply.

A hybrid loan may also be appealing if you expect to move within a few years. Your interest rate will be lower than with a fixed-rate mortgage, but you won't have to worry about a possible increase when the adjustable period begins.

TERM CHOICES

Another choice you make—the term, or length of time you take to repay your mortgage loan, also influences the amount of interest you pay and sometimes the rate too.

A 30-year term is most common, followed by a 15-year, though others are possible.

As the chart above shows, choosing a shorter term means you pay off your loan more quickly, reducing the interest charges even when the rate you're paying is the same. For example, the difference in the total cost of repaying a $200,000 loan in 15 instead of 30 years is $127,800 in your pocket. Better yet, the rate for a shorter loan is often lower, saving you even more.

The downside, though, is that the monthly payments are larger. In the examples above, you'd pay roughly $500 more a month. If owing more each month might strain your ability to pay, the longer term might be the wiser choice.

CAPPED COSTS

All ARMs have annual and lifetime caps to limit the amount the rate can change. With a VA guaranteed loan, those caps are 1% per year and 5% over the loan's term. With conventional loans, the caps may be 2% at the first and second adjustments with a 6% lifetime cap.

Qualifying for a Mortgage

If you want to find a mortgage loan using the VA home loan program, you'll need to meet the borrowing requirements of both the VA and the lender to whom you apply.

The VA wants to establish that you'll be able to meet your own and your family's needs as well as make your mortgage payments without the risk of default, or failing to repay what you owe. To make that determination, the VA sets standards for two factors: your **residual income** and your **debt-to-income (DTI) ratio**.

Residual income, also called discretionary income, is the amount that's left at the end of the month, after you have paid your rent or current mortgage, credit card bills, installment loans, utilities, and other essential expenses. A DTI ratio is your total debt, including a mortgage loan, divided by your income. The VA standard is a DTI ratio of 41%, though in practice some lenders approve higher levels and justify their decision to the VA.

The VA doesn't set the amount you can borrow. It leaves that to the lender. But it does require you to agree that the home you buy with the loan guaranty will be your primary residence.

SELF-EMPLOYED BORROWERS

If you work for yourself in a business that provides more income in some seasons than others, there may be problems verifying your actual earnings. That's true in construction, lawn care and landscaping, tourism, farming, and a long list of other occupations. In that case, lenders typically use income reported on tax returns for the previous two years as evidence of regular income. Lenders may also depend on tax return evidence for applicants whose income is derived primarily from commissions.

RECENT VETERANS

If you have recently retired or separated from active duty, you may face some challenges in securing a mortgage loan immediately. Lenders typically require two years of non-military income as evidence that you'll have the means to repay what you owe even when you have a strong credit history. But lenders are often willing to evaluate other factors. Some that may serve you well include:

- A valid offer of civilian employment, especially if the job is linked to your military duties or job skills
- Evidence of disability income or retired pay
- Ability to make a 10% down payment from your own funds
- A spouse who earns a good income

FROM APPLICATION TO APPROVAL

Even if you have been preapproved for a loan, you must submit your actual loan application as soon as possible—ideally within five days—after signing the contract to buy. The fee that's due covers some but not all the costs the lender has in processing your application.

Within three days of receiving the application the lender should provide a Loan Estimate that describes the details of the loan for which you applied. You can review a sample Estimate and find definitions of key words at www.consumerfinance.gov/owing-a-ahome/loan-estimate.

Loan Estimate
www.consumerfinance.gov/owning-a-home/loan-estimate

If you're still deciding among lenders, you may submit two or even three applications at the same time to compare offers. With the information those Loan Estimates provide, you may be able to negotiate a lower APR with the lender you prefer. The drawback of this approach is that you'll pay multiple application fees.

Don't worry though about multiple applications for a mortgage loan having a negative effect on your credit report. Multiple applications within a short period—sometimes up to 45 days—are considered a single application.

LENDERS' STANDARDS

In most cases, a lender looks at four factors in evaluating your VA loan application to determine your eligibility to borrow the amount you need to buy. It wants to see:

1. **A strong credit report**
2. **No more than 28% of your gross annual income needed to pay the loan's principal and interest plus home insurance, and property taxes (PITI)**
3. **A DTI ratio of no more than 41% to 43% unless there are extenuating circumstances**
4. **A two-year history of regular employment at a full-time job**

Creditworthiness

A lender will evaluate your **creditworthiness**, or the evidence based on your past and current use of credit that you can be expected to repay your mortgage loan. In addition, your credit report documents your outstanding debts, which makes it possible to calculate your DTI ratio.

In some cases, a lender will look at alternative credit data, including how you manage your checking account, whether you have paid your rent consistently, and whether you are up-to-date on utility, phone, and internet bills. That information doesn't show up in a credit report, but it can be a good indicator of financial responsibility.

Capacity

To analyze income and financial security, lenders ask for recent pay stubs, W-2s, and bank and brokerage statements among other financial records. The lender will use your COE for information about your retired pay, if any, and the disability income to which you're entitled. Your total income is sometimes described as your **capacity** to borrow.

Collateral

In addition, the lender evaluates your **collateral**, or the value of the property you want to buy. At a minimum, the property must be worth at least as much as the amount you are borrowing to buy it. To make that judgment, the lender hires a professional appraiser to evaluate the property on its own merits and in relation to comparable properties in the area. This appraisal is separate from the appraisal the VA requires and from the home inspection you had done on the property.

In the guidelines it provides to participating lenders, the VA encourages them to approve loans to all qualified veterans, using good judgment and flexibility in making their decisions.

PREAPPROVALS AREN'T BINDING

While most lenders honor a preapproval, they aren't legally bound to do to so, especially if your financial circumstances change. Not are you obligated to use a lender who has preapproved a loan for you.

OPTIONAL DOWN PAYMENTS

You can increase your chances of being approved and reduce the amount you will need to borrow—which means lower mortgage payments—if you make a voluntary down payment with any profit you realized from selling your current home or some other source.

From Approval to Closing

It can take up to 30 days after you submit your application to hear whether your loan is approved, though the wait is often shorter if you're preapproved. You'll receive a written commitment letter that includes the terms of the loan agreement and the time frame for setting a closing date.

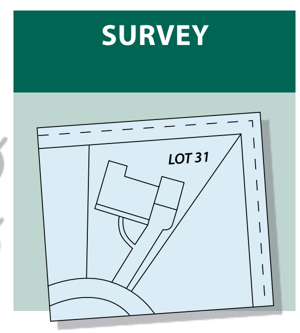
You should try to lock in the interest rate that's available at the time the loan is approved, with the understanding that if rates drop, the lower rate will apply at closing. Some lenders charge a fee for locking in a rate, which you should ask about as part of your search for a lender.

You are responsible for arranging and paying for homeowners insurance, a title search and title insurance, and a survey of the property you plan to buy.

Your lender requires **homeowners insurance** to protect its investment against a variety of potential hazards, such as fire or vandalism, that could threaten it. Of course, that's something you'd want even if it weren't required.

You need a **free and clear title** to the property. The title assures you and the lender that there are no legal or financial claims that would undermine your rights as the new owner. To obtain the title and title insurance to protect you in case some claim was overlooked, you pay a title company to search the public record for outstanding issues and insure the lender against potential claims. If you want title insurance for yourself, there is an extra charge.

A **survey** maps the physical boundaries of the lot on which a home is constructed, the location of structures, wells or septic tanks if any, and other features or conditions that describe the land. In some states providing the survey is the seller's responsibility and in others it's the buyer's.



INSPECTION TIME

In some states, a **home inspection** is typically scheduled after your mortgage has been approved rather than before you sign a contract to buy. If that's the case where you hope to live, you should arrange to have the inspection completed immediately. Your lender may also require a pest inspection. The presence of termites, for example, could be a threat to the home and should be remedied.

VA APPRAISALS

Following approval, your lender must request a VA appraisal.

The VA wants to be sure that a home purchased with its guaranty meets its minimum structural standards and is priced at or below its appraised value. Determining that amount is the job of an independent VA-approved appraiser.

When the job is complete, the appraiser provides a **notice of value (NOV)** that sets the value of the home. It also includes details of its floor layout and a list of things, if any, that must be repaired to meet the required standards.

If the appraisal is less than the asking price, you can back out of the deal using your escape clause or move ahead with the purchase, using one of the available options. You can:

- Ask for a reconsideration and provide evidence of sales data for comparable homes to support your contention that the appraised value is too low
- Renegotiate the price with the seller
- Pay the difference between the appraised price and the sale price at the closing

ASSUMABLE MORTGAGES

VA home loans are **assumable**. That means as a veteran who qualifies for a VA loan guaranty, you may be able to assume, or take over, an existing VA-guaranteed loan. Why would you do that? In most cases, it's because the older loan has a much lower interest rate than rates that are currently available. That could substantially reduce the cost of buying, especially if the seller has owned the property long enough to have paid off part of the principal.

What happens is that you substitute your VA home loan entitlement for the seller's entitlement, provided your entitlement is large enough to cover the outstanding loan. That should be the case if you're buying for the first time. If your entitlement is less, you'll have to make up at least some of the difference in cash so that the total guaranteed amount is 25% of the loan.

Unless you are exempt, there is a small funding fee of 0.5% of the total outstanding loan amount. But that's the easy part. To have the loan assumed, the seller must secure the approval of his or her loan servicer and sometimes of the VA. That approval depends on evidence that your income and credit standing are strong enough to make you a good risk and unlikely to default. The seller wants similar assurance because if you do default it counts against his or her entitlement.

VA FORM 26-8106

You'll need a COE and a signed VA Form 26-8106, "Statement of Veteran Assuming GI Loan." You must also agree that the property will be your primary residence.

Then you'll have to secure funding to cover the outstanding loan amount, probably using the seller's lender. Other lenders probably won't want to make a loan at a below-market rate. In addition, the seller may want to recover at least part of the equity built up though loan payments made prior to the assumption. That could increase your cost.

Despite the potential advantages, a possible drawback is that a loan assumption may take between 60 and 120 days to close, a big contrast with the average 21 days it takes for other purchases.

IF THE ANSWER IS NO

If your loan application is turned down, don't give up.

- You can apply to a different lender.
- You can look for a less expensive home that meets your needs.

A HIGH PASS RATE

Fewer than 13% of applications of VA loans are turned down, smaller than the percentages than for FHA loans and commercial loans, which average about 17%.

Insuring Your Home

When you buy a home with a mortgage loan, both you and the lender have an investment in the property. To protect its interest, the lender requires you to insure your home against damage to the structure that would reduce its value. You want insurance too, to be able to repair or replace your home and its contents if a disaster strikes.

In the language of an insurance policy, what you're buying is protection against perils, sometimes called hazards. Some policies cover named perils—the ones they specifically identify, such as fire—while other policies cover all **perils** except the ones they specifically exclude. Floods, earthquakes, and mold are almost always on the exclusion list.

You can buy homeowners insurance through a licensed agent who sells policies from several insurance companies, an agent who represents a single insurer, or directly from a company that sells insurance online. What coverage costs, or the annual **premium**, can vary significantly depending on the insurer and the type of coverage.

If you already work with an insurer for other coverage, and have been satisfied, you might start there. But, if you decide to use another provider, it's important to compare several quotes from different insurers, taking both price and quality of customer service into account, especially when a claim for a loss is submitted.

The service variable may not be as easy to compare, but it's worth the time to search reviews of the customer service at the firms you're considering. You can also check a firm's reputation with your state's insurance department.

HOW MUCH INSURANCE?

Insurance companies require you to cover your home for at least 80% of its value, an amount the insurer sets and that may increase each time the contract is renewed, normally once a year. But it's almost always wiser to insure for 100% of the home's value. That amount is typically less than the home's market value because you're not insuring the land on which the home is built.

You choose the amount of coverage you want for liability in case you are sued for injury or damage that occurs on the property. You may also be able to buy added coverage, called a policy endorsement or rider, for perils that aren't otherwise covered and for expensive possessions.

TYPES OF COVERAGE

If you own a single-family home, there are five types, or forms, of coverage:

- Dwelling Fire, which provides the least coverage
- Basic
- Modified
- Broad
- Special, which offers the most comprehensive protection and is the most popular, according to the National Association of Insurance Commissioners (NAIC)

You can also insure townhouses, the contents, walls, ceilings, and floors of a condominium unit, and mobile, or manufactured, homes. Manufactured home insurance may be harder to arrange and more costly than other homeowner insurance.

Some policies cover the **replacement value** of your home, or what it would cost to restore it to the way it was before the damage. Others cover the cash value. That is typically less expensive coverage but may not provide enough money to restore your home to its pre-damage condition.

One advantage of talking to several insurance agents is that you can compare their advice on the forms of insurance that would best meet your needs. You may use a fee-only insurance consultant who provides advice but doesn't sell policies and so has nothing to gain from the decision you make. And, for more information, you can download a copy of A Consumer's Guide to Home Insurance at www.naic.org.

A Consumer's Guide to Home Insurance
www.naic.org

WHAT INSURANCE COSTS

What you pay for homeowners insurance depends on several factors. These include your home's value, the type of coverage you select, and the insurer you choose, but also:

- Your credit history
- Your history of filing claims and the history of claims previously filed for the home
- Security systems and devices in the home
- How close the home is to a fire station or hydrant
- Other polices you own with the insurer
- The deductible you choose

An insurance policy deductible, like other deductibles, is the amount you're responsible for paying out-of-pocket for each loss. After you meet the deductible, the insurer pays an amount of the remaining claim it decides is appropriate. The higher the deductible you choose, the lower your premium will be. So you'll have to weigh paying a lower premium against covering a larger portion of any loss.

TAKE PICTURES

It's smart to photograph or video your home and its contents. In case of a loss, the images can help support your claim.

FILING A CLAIM

If your insured property is damaged by one of the perils against which you're protected, you file a claim with your insurer for money to pay for the repairs. The faster you file, and the more backup information you provide, the more quickly your claim should be resolved.

If you have a small loss, especially one that's slightly more than your deductible, you may decide not to involve the insurer at all. There may be little to gain and something to lose by filing a claim. Insurers have the right not to renew a homeowners policy when its term ends, and one reason for cancelling is the number of claims you have filed even if those claims are for legitimate losses.

Once you do file a claim, the insurance company's claims adjuster will contact you to assess the damage and report those findings. If you don't agree with the adjuster or the settlement you're offered, don't hesitate to object. In a worst-case scenario, you can appeal the decision to your state insurance commission.

FAIR WARNING

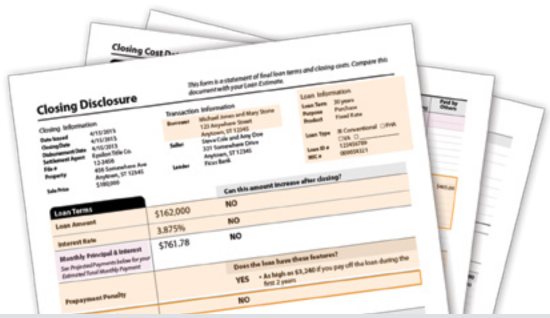
Before selecting an insurer, you should always check its financial standing with a rating company and review its record of consumer complaints with your state's insurance department.

The Closing

The closing—sometimes called the **settlement**—is the final step in buying a home. What happens at closing varies from state to state and sometimes within a state, based on local custom. But the result is the same. The seller receives the purchase price minus any amount owed on an outstanding mortgage loan, and the buyer receives the keys to the home.

Typically, the closing is a meeting that you, your agent, and your attorney (if you have one) attend, along with the seller or a representative and the seller's agent, a representative of the lender, a closing or settlement agent, and a recording clerk or notary public. There may be others as well.

CLOSING TIME
Closing usually happens four to six weeks after signing a contract, though it may be sooner if you were preapproved for your mortgage loan.



A HEAD START

At least three days before the closing your lender must provide a **Closing Disclosure**. It's a five-page document that includes the final loan terms, your closing costs, and your estimated monthly payments.

The Disclosure should reflect the terms detailed on the **Loan Estimate** the lender sent you when you applied for the loan. If you find any errors, unanticipated fees, or significant changes in the terms, your agent or attorney should contact the lender immediately.

You can find a sample Closing Disclosure explaining its contents at www.consumerfinance.gov/owning-a-home/closing-disclosure.

Closing Forms and Information
www.consumerfinance.gov/owning-a-home/closing-disclosure

You should also review the other closing documents, including the **promissory note** required for the loan, the **mortgage document**—also known as a deed of trust or security document—and the deed. It may be possible to sign some of these ahead of time, reducing the time the closing takes.

TAKE A WALK
A day or two before the closing, your agent should schedule a final walk-through of the home. You want to be sure, among other things, that any repairs the seller agreed to make have been completed and any furniture and appliances that the sellers agreed to leave are still there.

VA Funding Fee %

A VA FUNDING FEE

When you use a VA loan guaranty, a one-time funding fee that's figured as a percentage of the total loan amount is due. However, you're exempt from this fee if you're receiving VA compensation for a service-related disability or are entitled to compensation but receiving retired pay instead.

The funding fee rate is currently 2.3% for the first-time use of a purchase, home construction, or cash-out refinance loan when a down payment isn't required. It's 3.6% for subsequent loans. The fees are lower for interest rate reduction refinance loans (IRRRL), loan assumptions, and direct loans.

You may pay the funding fee yourself or someone else, including the seller, may pay it on your behalf. Another option is to have the amount added to your mortgage loan so you can pay it off over time. This will increase your monthly payment somewhat, and you'll be paying interest on the fee. But spreading out the cost does free up your cash for other needs.

CLOSING COSTS

You should expect to pay **closing costs** of between 2% and 6% of the loan amount, Including the funding fee. The seller may agree to absorb some of these expenses, depending on local custom. But the VA caps what the seller can pay at 4% of the total charges. You may also have paid certain amounts earlier, including for the home inspection or your first homeowners insurance premium.

Closing costs cover accessing your credit report, the title search and title insurance, the lender's appraisal, and the VA appraisal, among other items. The lender charges a loan origination fee, which the VA caps at a lower-than-average 1%. These amounts are not negotiable.

In most cases, you make the first payment toward your real estate taxes and perhaps homeowners insurance bill at closing. After that you pay a little more than one-twelfth of the annual amount of those costs with each monthly loan repayment. This guarantees that the lender or servicer will have money to pay those bills when they're due. These prepayments are generally held in an escrow or impound account that may pay interest, depending on the state.

If you have agreed to prepay an amount at closing to reduce your loan's interest rate—an arrangement known as **discount points** or **buydowns**—that payment is also handled at closing. Each point costs 1% of the mortgage loan and reduces your rate by 0.25%. For example, paying two points on a $200,000 loan with a 6% interest rate would cost $4,000 and reduce the interest rate to 5.5%.

Loan amount:		$200,000
Interest rate: 6%		
Rate after discount points applied:	x	5.5%
Your cost	=	**$4,000**

PAYING YOUR SHARE

In the year you buy, you typically split certain annual costs of owning a home with the seller. For example, suppose you close on March 1, and the seller has already paid a year's worth of real estate taxes on September 31. The seller would absorb half the amount, having lived in the home for the first six months. You would reimburse the other six months, during which the home would be yours. In this case, if the tax were $5,000, you'd owe the seller $2,500.

AFTER THE CLOSING

After the closing, you arrange an electronic transfer or write a check for the amount due each month to the account your lender designates. That account may be with the lender or with a **servicer**, a firm that handles recordkeeping.

In either case, you'll receive an annual account statement detailing what you've paid, with your tax-deductible interest payments listed separately. That interest amount is also reported to the Internal Revenue Service (IRS). You should keep the records, as well as all the closing documents, with your permanent records.

HOW TO PAY
Check with your agent or attorney or the closing agent about how to pay closing costs. In most cases, you need to arrange ahead for a wire transfer, a cashier's check, or a certified check.

Being a Homeowner

Is buying a home a wise investment? One of the most expensive purchases you are likely to make, a home has value that may increase over time. Many people have been able to sell their homes for more—sometimes far more—than they spent to buy and improve them.

The reverse is also true. A property's value can drop for a variety of reasons—for example, if there's a change in the overall housing market or in the community where you live. If you have to sell when the price is less than you paid for your home, you'll have a financial loss.

Investment value may not be your primary consideration in buying a home. What may be most important to you is finding a place that you can afford, that fits your lifestyle, and where you and your family are happy living.

Either way, it's important to take care of your property. At least once a year you should arrange to have major systems, including heating and air-conditioning, checked. It's also important to have the gutters cleaned, leaky plumbing fixed, and any needed repairs to the roof taken care. You should also keep the exterior in good shape. Without maintenance, your home will lose value, and be a less comfortable place to live.

TAX SAVINGS

If you've just purchased your first home, you might want to download a copy of IRS Publication 530, "Tax Information for Homeowners" at www.irs.gov. It covers all the tax advantages that come with owning your own home, such as deductible mortgage interest, deductible real estate taxes (capped at $10,000 through 2025), and credits for certain improvements.

HOME VALUES

A home's value can be defined in several ways.

Market Value	Market value is the amount a buyer is willing to pay for it at a particular point in time. Market value changes all the time as demand for homes change.
Appraised Value	Appraised value is what a professional appraiser working for a lender or the VA judges a home to be worth based on its condition and in relation to comparable homes in the same community. The appraised value determines the size of the loan a lender will provide and whether the VA will guarantee the loan.
Assessed Value	Assessed value is set by a local municipality's assessor and differs, at least to some extent, from both the market and appraised values. The assessed value multiplied times the applicable tax rate determines your real estate taxes and, in some states, your school taxes.

HOMEBUYER BEWARE

If you're hiring a contractor to make changes to your home, it's always a good idea to make sure the person is licensed and insured, and there are no complaints on file with the local Better Business Bureau. Check with your neighbors, too, to ask if they could recommend trusted local providers.

You'll want to have a written bid before the work begins and an agreement that you will need to sign off on any changes that will increase the cost. You'll also want to have an approximate timeline and an explanation of how the clean-up will be handled.

If you're comparing bids from different contractors, remember that the lowest bid is not always the best deal. You don't want to hire someone who will use lower-quality materials or inexperienced staff to cut costs.

PREPAYING YOUR LOAN

Home loans with a VA guaranty have no prepayment penalties. That means you have the right to pay off the loan at any time.

If you sell your home while you still have a mortgage loan, you pay it off in full, typically with money the seller pays for the property. In fact, the average mortgage is held fewer than ten years.

Another way to pay down your loan more quickly than required is to make an extra payment each month, specifying that the additional amount should be used to reduce the principal.

Those who favor this approach point out that the extra payments reduce the term of the loan, which means you're paying interest for fewer months. If you have a hybrid loan, you also benefit because each time the rate is readjusted, it's calculated on a smaller outstanding principal.

Another perspective is that the interest rate on a mortgage loan is lower—typically much lower—than on other types of debt, such as credit cards. If you have extra money to spend, it might be used more effectively to reduce higher-interest debt. In addition, even if you pay off a fixed-rate loan a few years early, you've already paid most of the interest. That means you might end up saving much less than you expected.

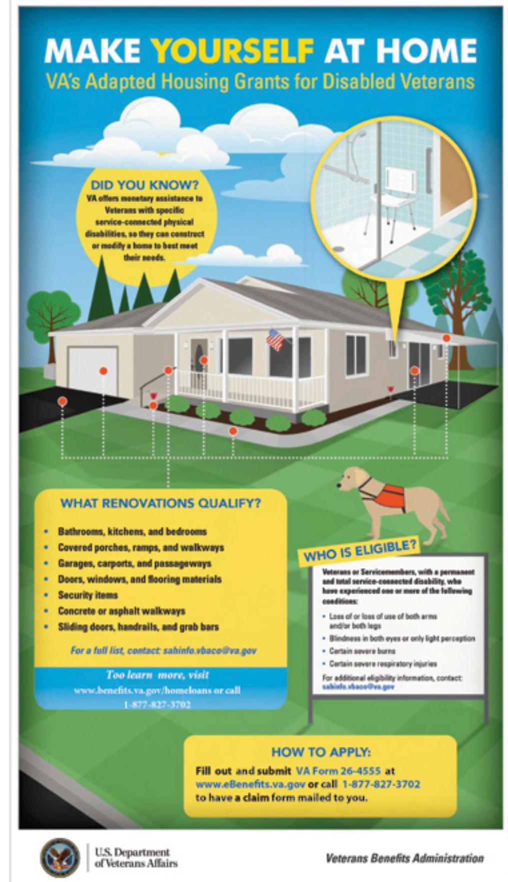
REPAYMENT PROBLEMS

If you fall behind on your mortgage payments, you run the risk of **foreclosure**. That means your lender or servicer has the right to repossess the property and sell it to recover its investment.

While having a VA home loan guaranty doesn't protect you from foreclosure, the VA doesn't want foreclosure to happen any more than you do. Neither does the lender or servicer.

If repaying becomes a problem, you should contact your servicer immediately to explore alternatives to foreclosure. The options you're offered will depend on your financial circumstances and may range from a revised repayment plan or a modified loan agreement to a short sale. In a short sale, you sell the home for the best price you can get, even it is less than you owe, with the sale price going to the lender or servicer to satisfy your debt.

If your loan is delinquent but not yet in foreclosure—about a four-month window—it's a good idea to call your VA Regional Loan Center for help at 877-827-3702. You can get more information at www.va.gov/housing-assistance/home-loans/trouble-making-payments/



VA Adapted Housing Grants
www.va.gov/housing-assistance/disability-housing-grants/

VA Regional Loan Center
www.va.gov/housing-assistance/home-loans/trouble-making-payments/

HELP FROM SCRA

If you bought your home while you were still on active duty, and are having trouble paying your mortgage loan, you may qualify for help under the Servicemembers Civil Relief Act (SCRA). Follow up with your lender or with a VA Regional Loan Center.

Resources

VETERANS ADMINISTRATION (VA)
General Information: 800-698-2411
TTY:711

VA BENEFITS HOTLINE
800-827-1000
Additional phone numbers: www.va.gov/resources/helpful-va-phone-numbers
Commonly used VA Forms: www.va.gov/find-forms/

VETERANS BENEFITS ADMINISTRATION (VBA)
800-827-1000
https://benefits.va.gov/benefits/

CLOSING INFORMATION
www.consumerfinance.gov/owning-a-home/closing-disclosure

COE
877-827-3702
www.va.gov/housing-assistance

AMERICAN SOCIETY OF HOME INSPECTORS
www.homeinspector.org/

LOAN ESTIMATES
www.consumerfinance.gov/owning-a-home/loan-estimate

HOME INSURANCE
A Consumers Guide to Home Insurance
www.naic.org

MORTGAGE INTEREST RATES
www.Bankrate.com

SAH AND SHA APPLICATIONS
www.va.gov/housing-assistance/disability-housing-grants/how-to-apply/

VA DISABILITY HOUSING GRANTS
www.va.gov/housing-assistance/disability-housing-grants/

VA REGIONAL LOAN CENTER
www.va.gov/housing-assistance/home-loans/trouble-making-payments

SPECIAL THANKS
Defense Credit Union Council (DCUC)
Jennifer Hernandez, Founder and Head Realtor, Powers Home Group

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