VA LOANS

WHY YOU SHOULD WORK WITH VETERANS

MAY 2023

AIME
ASSOCIATION OF INDEPENDENT MORTGAGE EXPERTS

VETTED VA
TRUST BUT VERIFY

RESEARCH
POLYGON

VALIDATING WHY YOU SHOULD WORK WITH A VETERAN

MAY 2023

METHODOLOGY

Our white paper aims to uncover facts about VA lending through data and, to the extent possible, clarify and dispel some of the misconceptions about the VA loan. The paper is the collaborative effort of Vetted VA, AIME, and Polygon Research. Our approach involves:

1. Extensive data analysis of key data sets that inform our understanding of the VA loan described below, and
2. Extensive use of the VA lending expertise of Vetted VA loan originators, many of whom are Veterans themselves.

Polygon Research maintains a single source of truth for all of its apps in its cloud-based technology stack and performs its analysis predominantly using this source of information, presenting the findings in tables and charts with the corresponding commentary. Vetted VA and its members added the domain expertise from a mortgage origination perspective. The Association of Independent Mortgage Experts (AIME) edited and published the report.

NOTES ON CLOSING COSTS

We used data from HMDA Modified LAR (see description of data source below) to compare VA loan costs to closing costs of other loan types. These closing costs are the sum of all costs that the borrower pays to close a loan. There are several components of loan closing costs that are disclosed via HMDA data. From the Closing Disclosure we use the following:

- Box A: Origination charges - application, underwriting and discount points.
- Box D: Total loan costs which includes costs for services the borrower did not shop for (e.g. appraisal fee, credit report fee, VA funding fee, flood and tax research, etc.).
- Box J: Lender credits.

Excluded from closing costs data collected are costs such as recording fees, prepayments for home insurance and mortgage insurance premiums, prepaid interest, prepaid property taxes, escrow account payment, HOA fees, and owner's title insurance.

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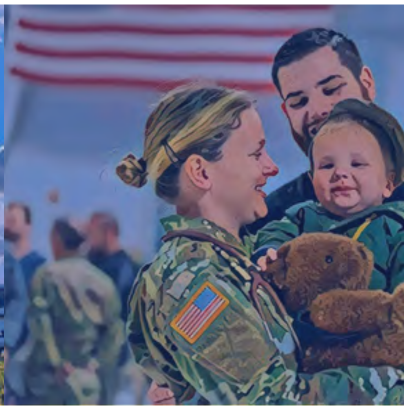
DATA

The data described in VA lending dynamics and the VA market is obtained from several different sources. Each data set provided has its own limitations, but together these data sources and the analyses stemming from them contribute wholly to a well-rounded, quantitative picture of the VA loan.






HOME MORTGAGE DISCLOSURE ACT (HMDA)

The main data source used to analyze various aspects of VA loan originations in comparison to other mortgage loans is the HMDA Modified LAR, which contains loan-level information about financial institutions' lending activity for loans secured by a dwelling. HMDA's loan-level data set is released annually in March and dynamically updated throughout the year. Polygon Research ingests and updates the data quarterly and presents Vetted VA and AIME an interactive dashboard with four years of information comprising of more than 100 million loan-level transactions. Our analysis is based on HMDA Vision 7.4.1 data updates as of April 3rd, 2023.

This HMDA data gives an in-depth view of U.S. mortgage market activity. We use this data extensively for review of VA lending in context and comparison of other loan types and geography. HMDA contains valuable data points around the closing costs the borrower pays (origination charges, discount points, closing costs, lender credits), interest rates, and the interest rate spread. Polygon Research has made this data usable in its app, HMDAVision, which was used to distill the analysis for our tables and charts. HMDAVision provides the fullest and deepest insight available into U.S. mortgage dynamics from borrower application through sale to the secondary market. At the same time, the HMDA LAR data has the constraints that it does include borrower credit scores, application and closing dates (beyond a year), and the information does not distinguish between existing and new homes.

CURRENT POPULATION SURVEY (CPS) ANNUAL SOCIO-ECONOMIC SUPPLEMENT (ASEC)

CPS is a monthly survey of about 70,000 U.S. households. Information is collected on each member of the household. Statistical techniques are used to extrapolate the results; this outcome is microdata weighted to represent the entire (civilian non-institutional). The U.S. key dimensions of interest in the data collected are race, ethnicity, sex, age, homeownership status, veteran status, education, income, occupation, employment status, household type, and relocation. The demographics data about the size of the VA population, especially information points around Veterans with a service-connected disability comes from the CPS ASEC. The most recent available data set is from March 2022. Polygon Research has collected the microdata (PUMS) for five years' worth of ASEC and monthly CPS data and activated demographic insights in its CPSVision app. This data is an excellent gauge at the national level, and large MSA, but we advise our app users to be mindful of reports with smaller geographies.

AMERICAN COMMUNITY SURVEY (1-YEAR)

ACS is an annual survey that goes out to roughly 3.5 million households. Polygon Research models this microdata on its app, CensusVision. The ACS universe includes both the civilian and military population in households and in group quarters (resident population). The resident population consists of institutionalized persons such as those residing in correctional facilities and senior care or nursing homes; and the non-institutionalized such as persons that reside in college dormitories. The key dimensions of interest in ACS data are race, ethnicity, sex, age, homeownership status, Veteran status, education, income, industry, occupation, employment status, household type and relocation. The analysis can be performed from the state level to individual "neighborhood" or PUMA level. We chose to include analysis from ACS in order to conduct comparisons between rent and mortgage payments for Veterans and in the context of other populations and circumstances. The microdata does not allow analysis at a census tract level in order to preserve the anonymity of survey respondents; for this, we used the summarized five-year ACS data available in HMDAVision.

FEDERAL RESERVE BOARD, SURVEY OF CONSUMER FINANCES (SCF)

Polygon Research has tabulated the most recent SCF, considered the national gold standard for benchmarking household wealth. This triennial survey administered by the Board of Governors of the Federal Reserve System; the most current available year is 2019. The survey measures the net worth of American Primary Economic Units (households/families) with a breakdown by assets and debts. Additionally, the survey is given to roughly 5,800 families using statistical techniques to extrapolate to the entire U.S. With hundreds of questions asked, the resulting microdata is weighted to represent the entire U.S. We've included this information in our analysis because Veteran status is among the key dimensions (race, ethnicity, age, homeownership status, Veteran status, education, employment status) and in this way, we are able to analyze and compare the wealth of Veteran homeowners to non-Veterans. Moreover, among the thousands of data points in the SCF, there are a few that we analyzed to understand the loan type preference pertaining to VA loans. Finally, the SCR is considered a leading indicator of household wealth in the U.S. All SCF analysis on Veterans and non-Veterans in the analysis is based on principle residence of house, townhome, apartment, other. This excludes mobile homes, ranches and farm residences.

WHAT IS A VA LOAN?

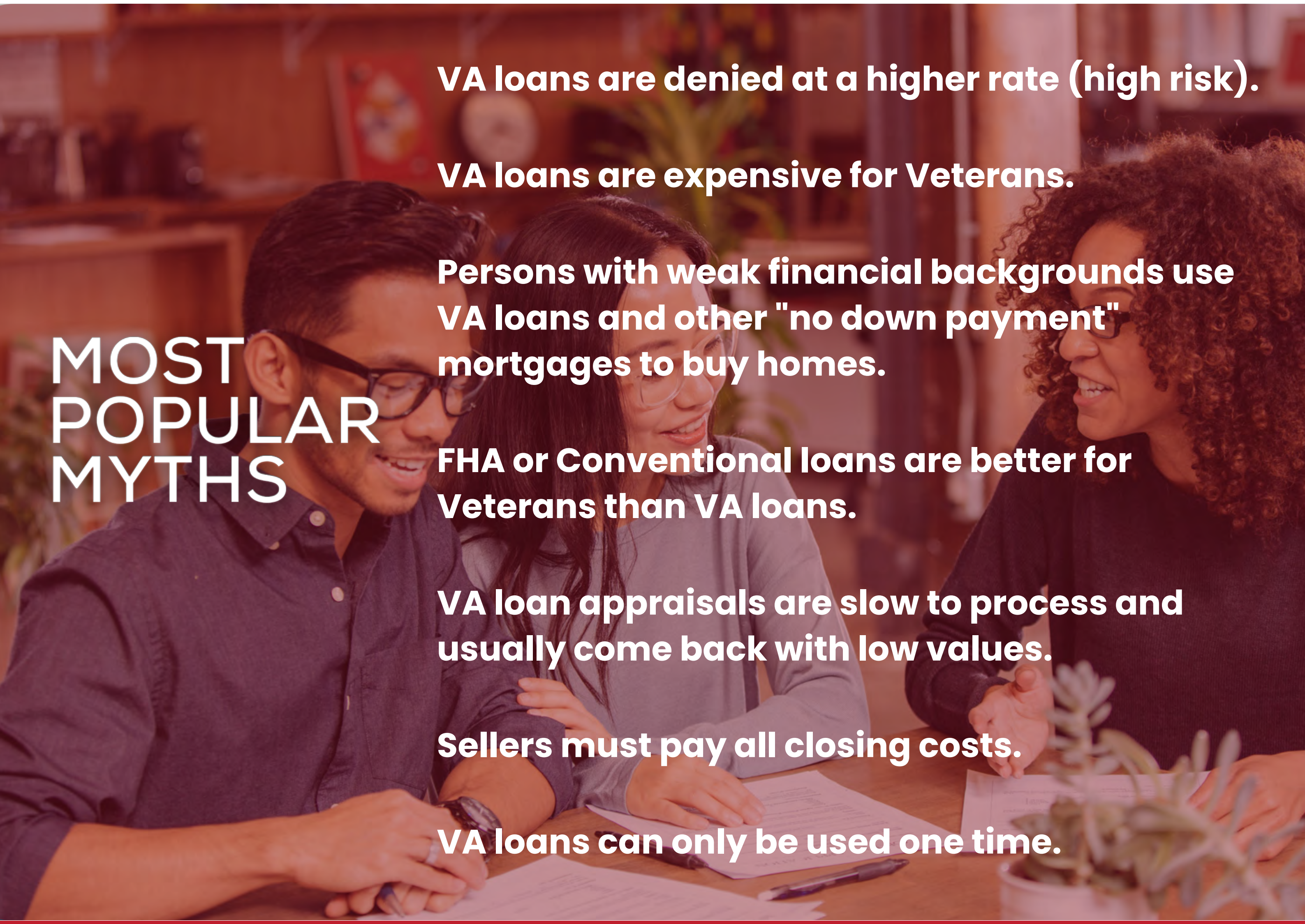
The VA home loan is a benefit earned by Active-Duty Service Members, Veterans, National Guard members, Reserve members, and eligible surviving spouses.

In 1944, Congress passed the Serviceman's Readjustment Act, also known as the GI Bill. The Department of Veterans Affairs Loan Guaranty Program (VA loan) was established as part of the bill. Today, the VA home loan still exists as a financing option for qualified Active-Duty Service Members, Veterans, National Guard members, Reserve members, and eligible surviving spouses for their purchase or refinancing of a home. In addition, there are other groups and categories of consumers that may be eligible for VA Lending that are not listed here. In all things VA Home Loan related we highly recommend regular consultation of the VA Benefits site at https://www.benefits.va.gov/homeloans/index.asp.

VA LOAN MISCONCEPTIONS

There are several misconceptions about the VA loan, its use, benefits, and drawbacks in recent years. In this detailed white paper, Vetted VA and Polygon Research examine the VA loan market from a well updated, federal underwriting perspective to address these misconceptions, thereby educating mortgage and real estate professionals.

This document explores seven common misconceptions about the VA home loan, how Veterans perceive it, how it is used, and its role in the overall mission to improve homeownership.



MISCONCEPTION #1

"VA LOANS ARE DENIED AT A HIGHER RATE (HIGH RISK)"

According to anecdotes from several sources, VA loans are believed to be harder to process and get approved.

FALSE. VA LOANS HAVE THE LOWEST DENIAL RATE.

Using Polygon Research's HMDAVision[1] to comb through 2022 HMDA Modified LAR data gather granular insights into loan pull-through, loan life cycle of each loan, and lender by state, county, and census tract, as well as borrower demographics and loan attributes. As shown in the table below, VA loan applications from home purchase mortgages are denied by lenders only 7.2% of the time, nearly 4% less than average for other loan types.

Loan Type	Loan Denials	Loan Applications	Denial Rate
FHA-insured	106,049	897,256	11.8%
Conventional	558,273	5.004,643	11.2%
USDA	8,967	80,007	11.2%
VA-guaranteed	38,326	530.953	**7.2%**
Totals	711,615	6,512,839	10.9%

Source: 2022 Loan Denials, HMDAVision, 2022 HMDA LAR Data, Purchase, 1-4 Units

VA ORIGINATION RATES

In the following chart, origination rate is the percentage of the loan applications taken in total. As shown below, VA loans have an origination rate of 69.4%, which is 4.5 points higher than Conventional Loans and 2.6 percentage points higher than FHA loans. Below is a breakdown of loan applications (applications) divided by loan originations (originated).

Loan Type	Originations	Applications	Origination Rate
FHA-insured	599,152	897,256	66.8%
Conventional	3,299,529	5,004,643	65.9%
USDA	55,536	80,007	69.4%
VA-guaranteed	368,528	530,933	**69.4%**
Totals	4,322,745	6,512,839	66.4%

MISCONCEPTION #2

"VA LOANS ARE EXPENSIVE FOR VETERANS"

FALSE. VA LOANS SAVE VETERANS MONEY.

VA policy aims to help Veterans utilize their home loan benefits. Therefore, VA regulations limit the fees that the Service Members and Veterans can pay to obtain a loan (see Chapter 8: Borrower Fees and Charges and the VA Funding Fee). According to VA lending guidelines, "lenders must strictly adhere to the limitations on borrower-paid fees and charges when making VA loans". [2]

THE TRUTH REGARDING VA LOAN PRICING

To get insight into pricing, we used the publicly disclosed data modeled in HMDAVision. In Table 3, we compare the pricing of the four major loan types by a variety of dimensions, including:

- CLTV
- Points
- Credits
- Originations charges
- Net charges and credit*
- Interest rate
- Rate spread, and
- loan closing costs (typically the costs shown the Closing Disclosure - see Methodology)

Below, we highlight the closing costs and interest rate.

Loan Type	Total Loans (#)	Avg Loan Size	Avg CLTV	Avg Net Charges Credits	Avg Interest Rate	Avg Discount Points	Avg Lender Credits	Avg Orig Charges	Avg Closing Costs	Avg Rate Spread
Totals	**4,322,746**	**$363,242**	**83.63%**	**$2,612**	**4.98%**	**$3,555**	**$1,120**	**$3,185**	**$7,281**	**0.40**
VA-guaranteed	368,526	$374,969	95.72%	$2,467	4.76%	$3,704	$1,048	$2,513	$9,551	-0.02
USDA	55,536	$179,184	97.41%	$2,165	4.79%	$2,110	$566	$2,271	$6,6237	0.47
Conventional	3,299,529	$380,106	80.03%	$2,529	5.00%	$3,624	$1,145	$3,232	$6,231	0.31
FHA-insured	599,152	$280,222	95.28%	$3,204	5.02%	$3,327	$1,114	$3,461	$11,053	1.12

Source: 2022 Comparative Pricing Analysis, HMDAVision, 2022 HMDA LAR Data, Purchase, 1-4 Units. *Note: net charges and credit includes seller-paid discount points.

The sum of all costs of the loan is comprised of discretionary and non-discretionary items. Looking first at the discretionary items, even though the VA purchase loan has 100% LTV, it still has the lowest net charges and credits (including originations charges like appraisal and underwriting fees, discount points, and lender credits), the lowest interest rate, and the lowest rate spread. Regarding the non-discretionary items, see the discussion of the VA funding fee below.

DO VA LOANS REQUIRE 100% LTV?

Veterans are not required to take 100% LTV loans, but many do because their monthly payments on 100% financing loans can be affordable (and are absent PMI). A Veteran who took out the average size conventional loan ($380,106) shown in the table above would have paid on average a down payment of about $95,000 for a loan with a likelier higher interest rate.

Due to the timelines of Veteran or active duty borrowers for homeownership, as well as competing investment strategies for the cash that would otherwise go into a down payment (including but not limited to the support of residual income increasing borrowing stability), the size of the down payment can be an important factor in this scenario.

In fact, over the last 4 years, the share of VA purchase loans on 1-4 units has been between 17% and 21.6%, as shown in the figure below.

VA PURCHASE LOANS WITH CLTV OF LESS THAN 100%

There are several misconceptions about the VA loan, its use, benefits, and drawbacks in recent years. In this detailed white paper, Vetted VA and Polygon Research examine the VA loan market from a well updated, federal underwriting perspective to address these misconceptions, thereby educating mortgage and real estate professionals.

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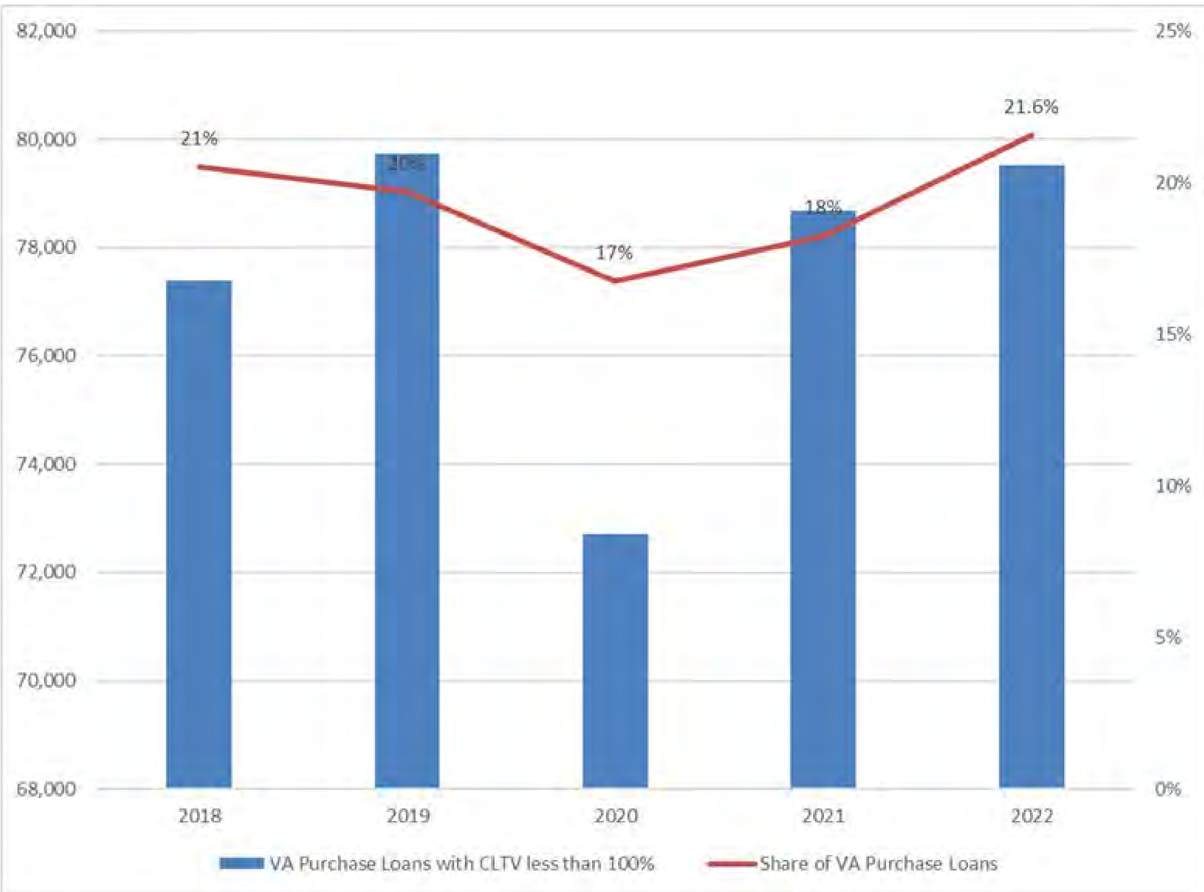
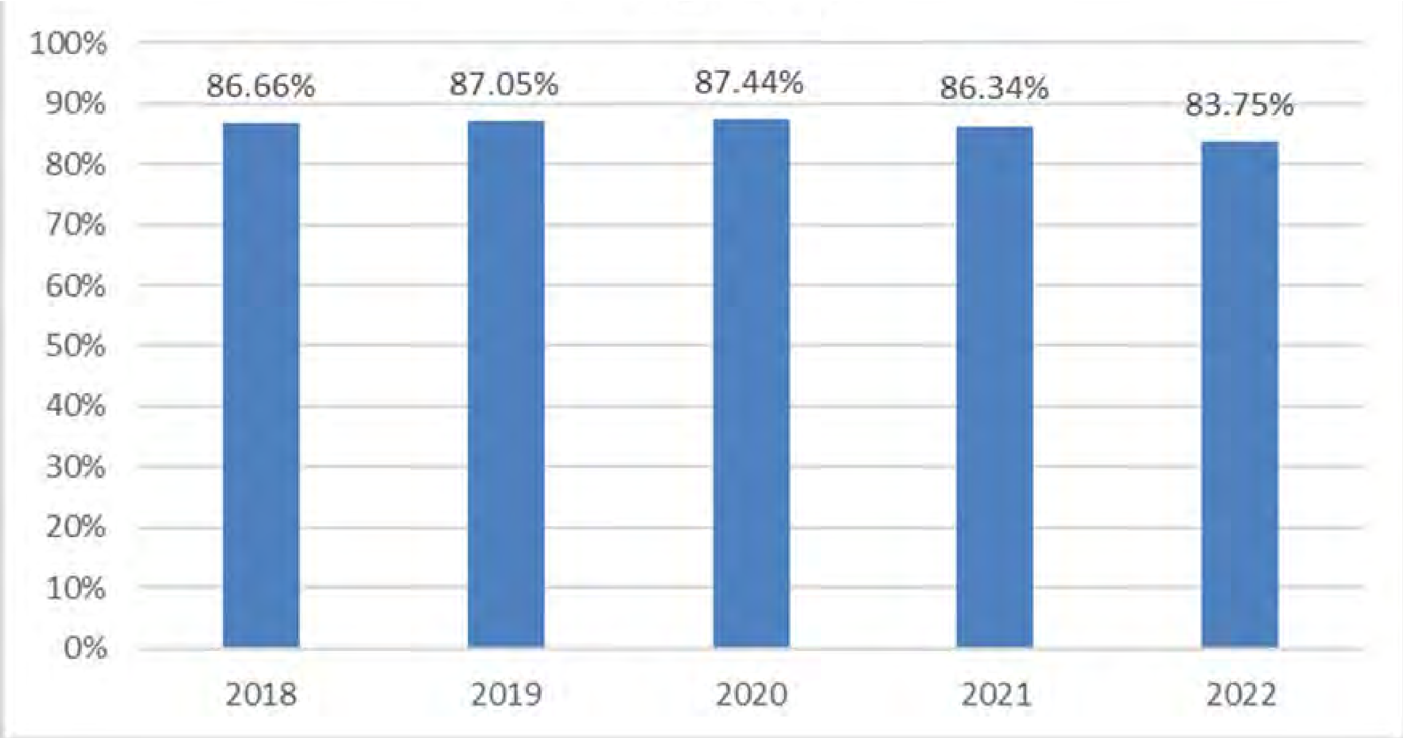


Source: Polygon Research, HMDAVision, (2018-2022) VA Purchase 1-4 Units.

In 2022, the share of VA purchase loans with less than 100% CLTV was 21.6% (about 22%) of all VA purchase loans originated (Source: Polygon Research HMDAVision, VA purchase, 1-4 units, Modified LAR data updated through April 2023).

AVERAGE CLTV OF VA PURCHASE LOANS WITH LESS THAN 100% CLTV



Source: Polygon Research, HMDAVision, (2018-2022) VA Purchase 1-4 Units.

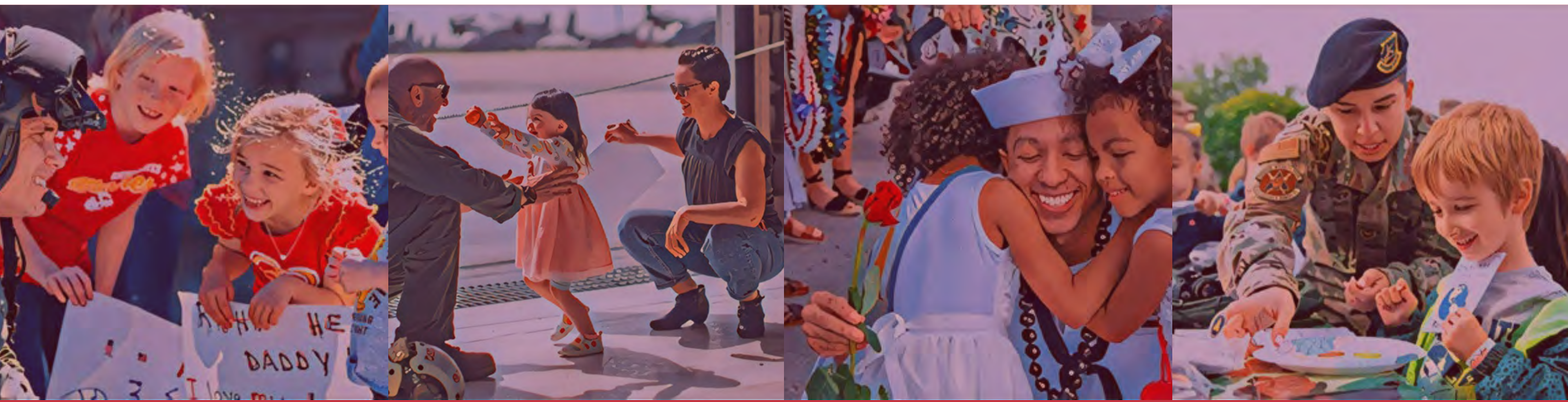
WHAT IS INCLUDED IN VA LOAN CLOSING COSTS?

Closing costs are the sum of all fees that must be paid to close the loan. VA loan closing costs include discretionary items such as origination charges, discount points, and fees, and non-discretionary items such as recording fees, title insurance, and the VA funding fee when it is not waived.[3]

Note: Borrower can negotiate with the seller, so they pay some or all of their closing costs if they'd prefer to keep more money in their pocket. VA loans allow sellers to pay 4% of the loan amount as seller-paid costs. If any judgements or credit balances prevent a borrower from qualifying for their loan, then additional seller concessions can be utilized to pay for other debts outside of standard closing fees.

VA LOAN FUNDING FEE

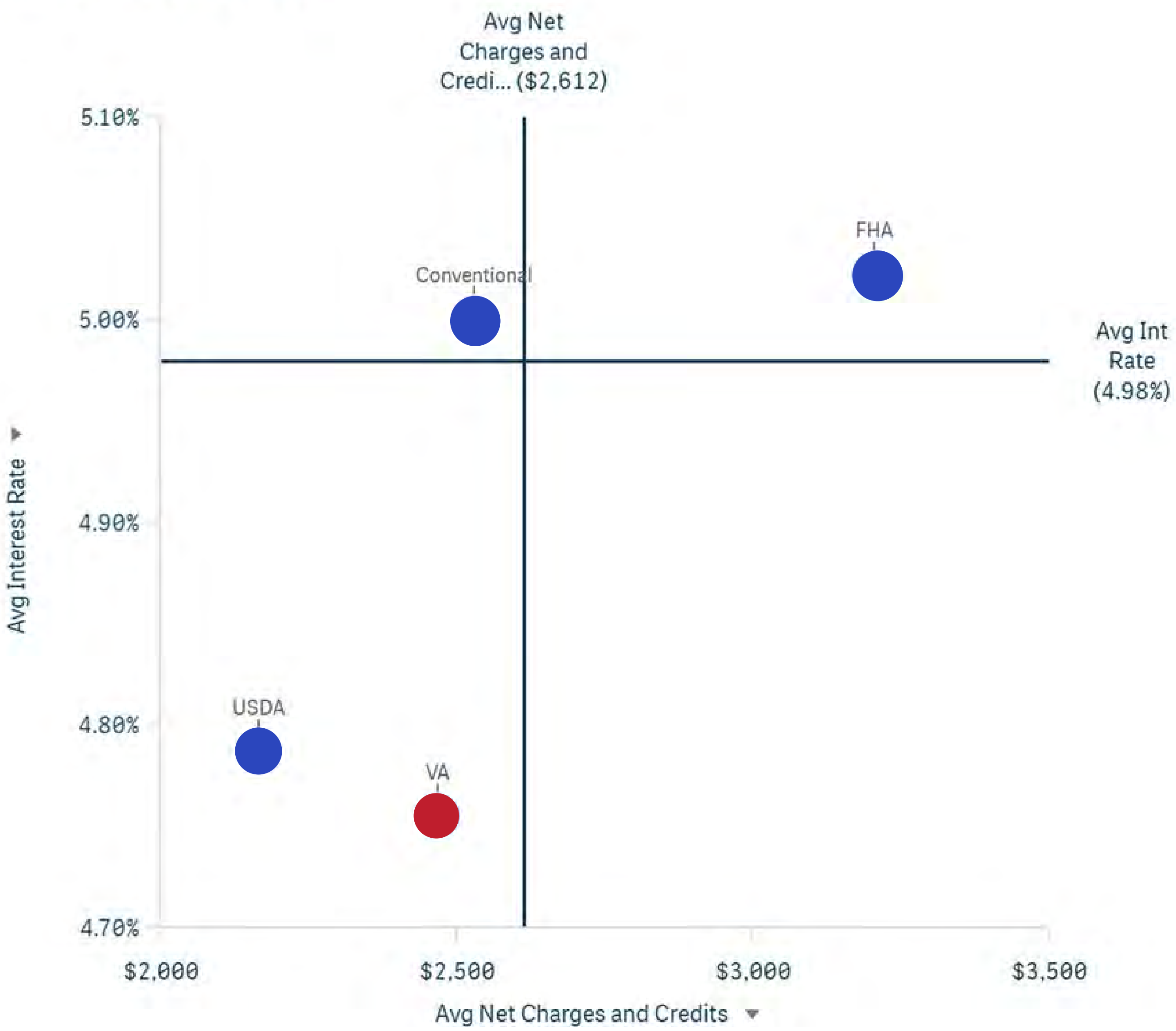
Funding fees are non-discretionary, one-time, upfront payments made by Veterans to the VA. The VA funding fee helps offset the costs of the VA loan program for all eligible servicemembers, Veterans and spouses, while also ensuring that borrowers continue to receive all the great benefits associated with VA loans, such as no mortgage insurance or down payment requirements.



It is important to note that the FHA loan also has an upfront fee of 1.75% of the loan amount for PMI (called UFMIP) that is paid at closing, whereas the VA Funding Fee and the UFMIP for FHA are often added to the loan but can also be paid in full as a line item closing cost. However, a great differentiating factor is that a Veteran with a disability rating of 10% or greater or an active-duty member that has been awarded the Purple Heart will have their funding fee waived for their VA guaranteed loan.

INTEREST RATES AND NET CHARGES AND CREDITS [4]

From the HMDA LAR data, we observe that VA loans have the lowest interest rate and the lowest rate spread. The rate spread on a loan is the difference between the rate offered to the VA borrower(s) and the average prime offer rate offered for similar loans.



Source: HMDAVision, 2022 HMDA Modified LAR Data, Purchase, 1-4 Units

Lenders and Veterans negotiate the interest rate and points. The VA Lender Handbook states that Veteran and seller can negotiate for the seller to pay all or some of the points, and that those points may not be financed into the loan with the exception of an Interest Rate Reduction Refinance loan (IRRRL). In addition, from the handbook the ***seller, lender, or any other party may pay fees and charges***, including discount points, on behalf of the borrower. These attributes make a VA loan one of the strongest options for covering any and all closing costs.

NO PRIVATE MORTGAGE INSURANCE ON ANY VA LOANS

One of the many advantages of a VA loan is that the Veteran does not have to pay any private mortgage insurance (PMI) (e.g., in the case of a conventional loan with a CLTV above 80%) or mortgage insurance premiums (e.g., in the case of an FHA loan). An important benefit of a VA loan is that it helps keep monthly payments low for borrowers. Typically, PMI costs 0.5% to 1% of the loan amount each year, which can add up quickly.

MISCONCEPTION #3

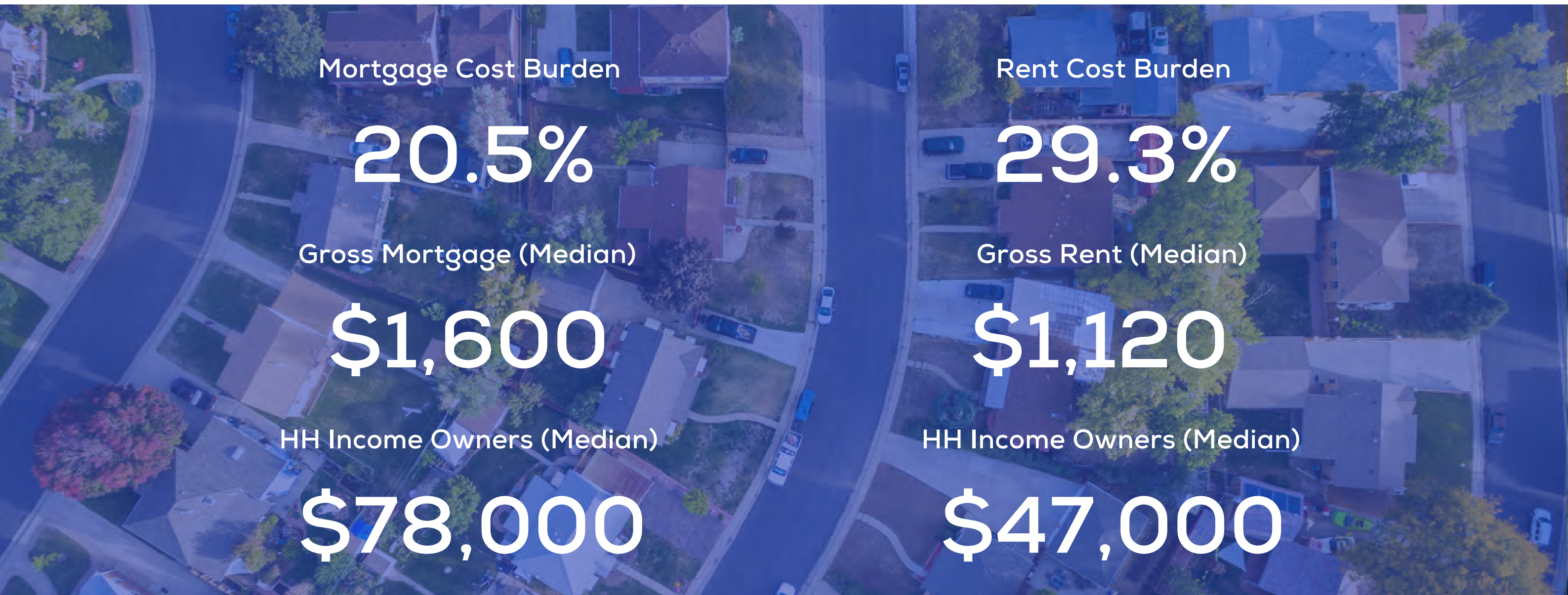
"PERSONS WITH WEAK FINANCIAL BACKGROUNDS USE VA LOANS AND OTHER 'NO DOWN PAYMENT" MORTGAGES TO BUY HOMES."

FALSE. VETERAN HOME OWNERS HAVE SIGNIFICANTLY HIGHER NET WORTHS.

Veterans aren't using VA loans because they have weak financial backgrounds. There simply isn't any evidence to support this. In fact, we compared the net worth of Veterans who have used a VA loan to purchase a home to Veterans who rented, using the most recent SCR data, a triennial survey of U.S. families. We found that Veterans who own their homes have a significantly higher net worth, **18x higher**, than Veterans who rent. Moreover, Veterans who rent their homes are older than the Veterans who own their homes, opposite of the general population.

Source: 2019 SCF Data, Tabulated by Polygon Research. VA/Other refers to VA loans and other non-FHA government loans. All SCF analysis on Veterans and non-Veterans in this analysis was based on principal residence of house, townhouse, apartment, other which excludes mobile homes, ranches and farm properties.

Further, in the table below, we used the ACS[5] to show that Veterans who own their home with a mortgage are paying a smaller percentage of their income than Veterans who rent.



VETERAN HOMEOWNERS

With VA loan Veteran homeowners having an 18x higher net worth than Veteran renters and Veteran homeowners with a VA mortgage paying only 20% of household income on mortgage payments compared to Veteran renters that pay roughly 28%, it is reasonable to conclude that Veterans are better off financially purchasing a home than renting one. VA loans allow Veterans to finance their homes in their entirety without any private mortgage insurance.

MISCONCEPTION #4

"FHA OR CONVENTIONAL LOANS ARE BETTER FOR VETERANS THAN VA LOANS."

FALSE. This truly depends on each individual Veteran's situation, and we attempt to address this misconception as objectively as possible.

TOP BENEFITS OF THE VA LOAN

To answer why borrowers choose VA loans, let's look at the most recent SCF. Scoping the survey responses to those where either the respondent or his or her spouse had military service. Veterans' predominant reason for choosing to use their VA[6] loan benefit were:

1
BETTER INTEREST RATE

2
SPECIAL FEATURES FOR FIRST-TIME HOMEBUYERS

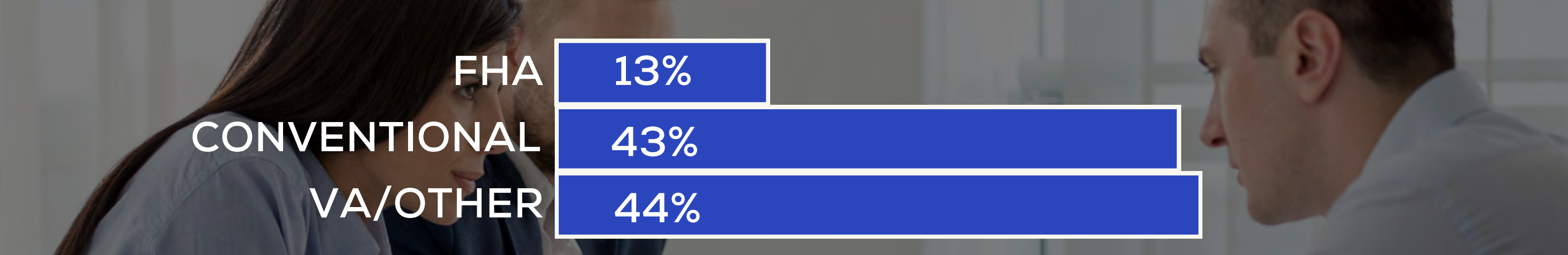
3
AMOUNT OF DOWN PAYMENT

Veterans may also apply for VA Interest Rate Reduction Refinance loan to reduce or stabilize their monthly mortgage payments. An IRRRL does not require a Veteran to need an updated appraisal, proof of employment or loan analysis (debt-to-income, FICO score check) in most cases. Veterans may also change loan terms, defer mortgage payments for up two months, and have a pretty speedy closing.

VA LOANS TO BUY A HOME

In addition, among homeowners that own their property free and clear, Veterans outstrip non-Veterans 23% to 35%, which calls into focus a fact that many Veterans have already used their VA loan benefit as a path to full ownership. With this information considered, the below chart shows that even though eligible, not all Veterans use the VA loan and are able to qualify for different mortgage tools as they choose. It truly depends on the individual Veteran.

VETERAN HOMEOWNER'S CHOICE OF MORTGAGE FINANCE



Source: 2019 SCF Data, Tabulated by Polygon Research. All SCF analysis on Veterans and non-Veterans in this analysis is based on principal residence of house, townhouse, apartment, other, which excludes mobile homes, ranches and farm properties.

MINORITY BORROWERS AND VA LOANS

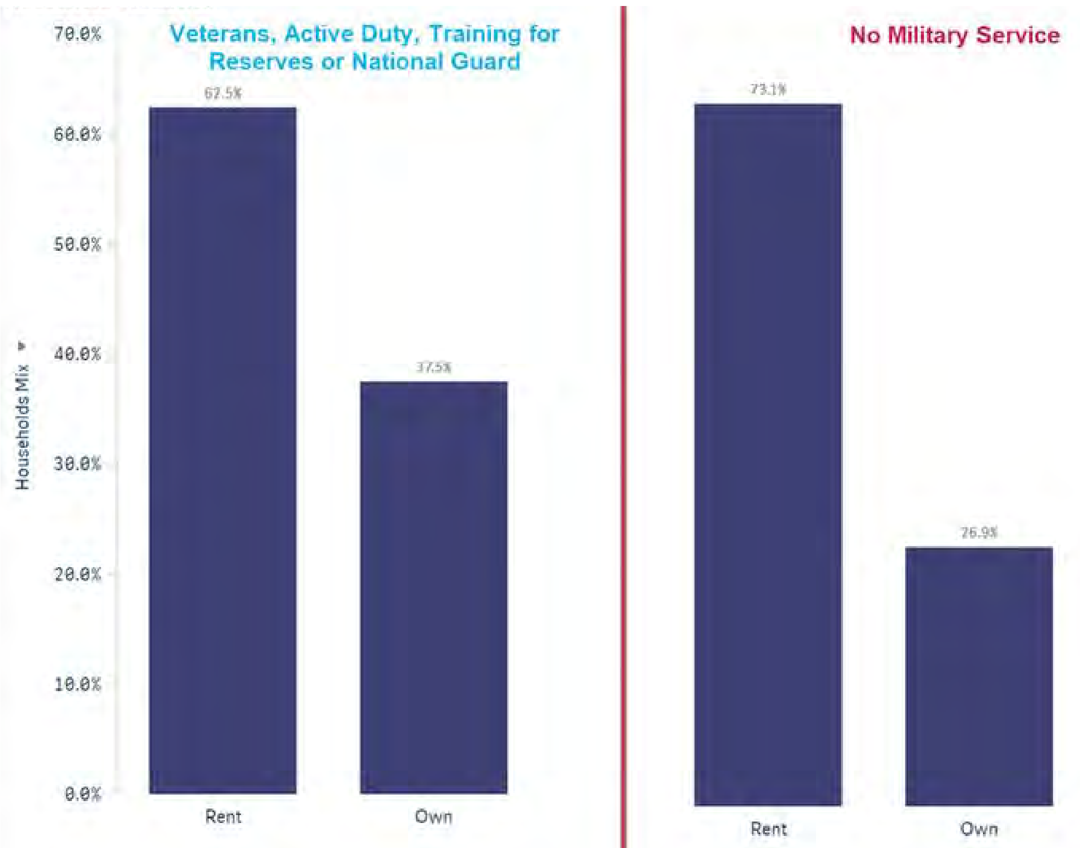
Next, let's examine minority borrowers. VA eligible minority borrowers are well served by using their earned VA loan benefit. Based on 2022 HMDA Modified LAR Data, we have examined the loan origination rate for minority borrowers by type of loan.

ORIGINATIONS TO MINORITY BORROWERS BY LOAN TYPE 2022

Loan Type	Originations	Applications	Origination Rate
Totals	**1,345,243**	**2,183,165**	**61.6%**
VA-guaranteed	120,527	181,075	66.6%
FSA	276,804	425,440	65.1%
USDA	11,695	18,188	64.3%
Conventional	936,217	1,558,462	60.1%

Source: HMDAVision, 2022 HMDA Modified LAR Data, Purchase, 1-4 Units, Minority Applicants

For minority borrowers, homeownership is an opportunity to create generational wealth and close the wealth gap between minority and non-minority households. Focusing on just relocated households, minority Veterans (including active-duty and those in training for Reserves or National Guard) have a higher homeownership rate (37.5%) than those with no military service (26.9%), a 10.6% point advantage.



Source: CensusVision, 2021 ACS 1-Year PUMS Data; Movers (recent buyers and renters).

VA LOAN LENDERS AND FINAL COSTS

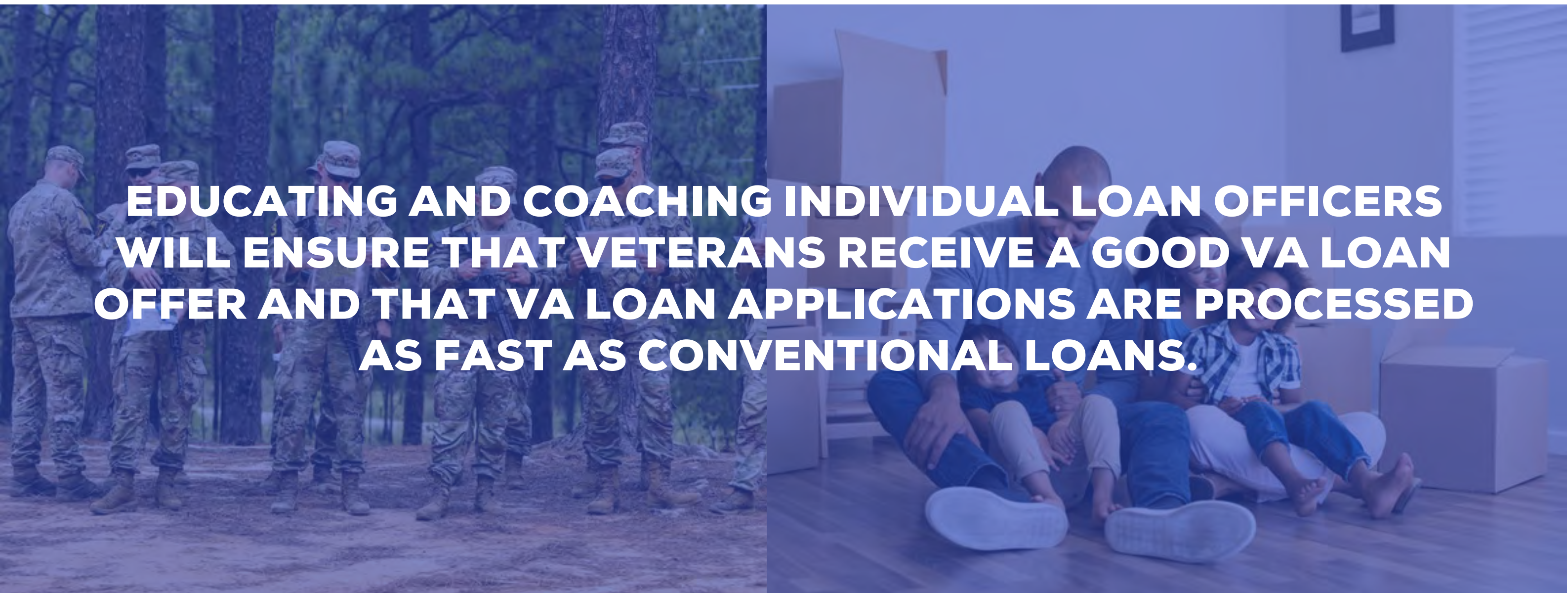
Finally, we come to question a lender's role in ensuring that the VA loan is the right fit for the borrower. VA loans are not all the same, each lender has the flexibility to add their own requirements (lender overlays). Up to this point, we have reviewed VA lending on average, and nationally, using measures of central tendency and histograms.

To examine further, we zeroed our focus in on one state, Missouri, and isolated different loan factors to get a better apples-to-apples comparison. We selected Missouri because, among the top 20 states for VA purchase originations in 2022, Missouri had the lowest average closing costs for VA purchase loans ($6,535). We reviewed all lenders in the state who accepted VA purchase loan applications in 2022.[7]

With the caveat that the publicly disclosed HMDA data does not include the borrower's FICO score, we analyzed the distribution of VA closing costs, interest rates, and other metrics in 2022 on VA loans for 1-4 units.[8] Depending on the lender, lender's strategy, and loan officer workforce plus many other tangibles, we saw a great range of closing costs. For VA purchase loans from these VA lenders, closing costs range from $0 up to $22,000.

We further limited the geographic scope to one MSA, St. Louis, and still identified the same pattern of the wide variability of pricing by VA lenders. Next, we chose one DTI range, 36%-43%, and detailed a pattern of a wide range of closing costs from VA lenders from $530 to more than $21,000. Finally, we further limited the analysis to the above DTI range of 36%-43% to a specific loan amount range of $275,000 to $300,000 only to get a similarly wide range of median closing costs by VA lenders from $1,758 to $15,805. The median interest rate spread in this segment varied from a low of -0.91 to a high of 0.87.

Data is evidence of something that has happened in the real world, and we have done our best to represent the world of VA lending through data analysis. But there is so much more that happens between a VA lender and a borrower – conversations and negotiations, the exchange of emails, documents, and loan offers – which are not captured in the data, and therefore cannot be analyzed. The existing data on VA lending is useful in that it allows us to see the results of what has happened. What we see is that VA lenders charge Veterans very different rates on their purchase mortgages. Knowing the ins and outs of VA lending is essential, and lenders should continue to improve their understanding of the Veteran community.



MISCONCEPTION #5

"VA LOAN APPRAISALS ARE SLOW TO PROCESS AND USUALLY COME BACK WITH LOW VALUES."

FALSE. On average VA loans take seven to ten business days to complete which is on par with Conventional and FHA loans. VA appraisal valuations also include two rebuttal options for reassessments of value, no other loan products support this.

VA appraisal timelines are fees are published on the VA website along with the supporting VA Regional Loan Center contact information to address and report delays or concerns. VA approved appraisers are highly trained and efficient in what they do. What makes the VA appraisal process truly unique are that there are two rebuttal opportunities for a buyer when an appraisal appears to come under contract price.

VA LOAN APPRAISALS AND THE TIDEWATER PROCESS

In cases where the appraised value of a home falls below the contract purchase price agreed to between buyer and seller, the Tidewater Process (Tidewater) is used. A property might fall through if an appraised value is too low for the seller and the Veteran buyer would be left out of luck. With Tidewater, both buyer and seller are given an opportunity to present their case for the purchase price and appeal if needed.

PART 1
STEPS OF THE TIDEWATER PROCESS

1. VA buyer and seller reach a price agreement.
2. The agreement is presented to the lender by the buyer.
3. The VA appraisal is ordered by the lender and completed by the VA appraiser.
4. VA appraisers believe the property may appraise for less than contract price and invokes Tidewater.
5. The point of contact (lender, Veteran, RE) notifies parties involved in the sale.
6. VA appraiser provides a two-day window for parties involved to provide information to justify the contract price.
7. Information is received and reviewed by the appraiser, and a decision is made by the appraiser.

RECONSIDERATION OF VALUE

If a borrower believes the VA Appraiser has made a mistake, a case can be made through the Reconsideration of Value (ROV) process. Any errors can be addressed; for example, three comparable in the neighborhood where the property is located that were not included in the initial appraisal can be submitted. In addition, it may be argued that the comparable used in the initial appraisal are not of the same size, age, or condition.

The ROV requires a letter from the borrower stating why the appraised value should be increased. **The borrower is given two opportunities to dispute and address the valuation.** **Conventional and FHA loans don't give buyers this option**.

PROCESS FOR ALTERNATIVE VALUATION METHODS

As of July 27, 2022, the VA released Circular 26-22-13 which prescribes alternative methods for VA Appraisers to use when evaluating properties for VA financing. This circular update the VA acceptance of Internal, External, and Desktop appraisals including, but not limited to, the procedures for assignment waterfalls in rural areas. These changes are in response to area needs and gives the LAPP flexibility to serve a VA eligible borrower more effectively and efficiently in accordance with their review process.

MISCONCEPTION #6

"SELLERS HAVE TO PAY ALL CLOSING COSTS"

FALSE. While the VA specifically states what fees a Veteran borrower can and cannot pay there is a lot more flexibility than most professionals think.

VA Lender Handbook, Chapter 8, Borrower Fees and Charges and the VA Funding Fee, topics 2 and 3 cover the fees and charges a Veteran borrower can and cannot pay for. Items such as appraisal and compliance inspections, recording fees, credit report, prepaid items, hazard insurance, flood zone determination, survey, title examination, title insurance, special mailing fees (for refinance loans), VA funding fee, MERS fee, and other fees authorized by the VA are fees that **CAN** be paid by the Veteran. This also includes Origination fees not to exceed 1% of the total loan amount. There are some exceptions in regard to construction or rehabilitation loans to the 1% fee of which an increase of up to 3% is permitted (cases vary).

The list of fees that a Veteran borrower CANNOT pay for is much shorter than the above list. These fees include certain itemized Lender fees, attorney fees for the Lender, and Real Estate Brokerage fees. While use of a 'buyer' broker is not precluded, a Veteran borrower may not, under any circumstances, be charged a brokerage fee or commission in connection with the services of such individuals. (See pgs. 8-10, Prepayment penalties and HUD/FHA Inspection fees for Builders)

On June 15, 2022, the Veterans Benefits Administration (VBA) further clarified in VA circular 26-22-11 that "Veterans may be charged for wood destroying pest inspections where required by the notice of value (NOV). Veterans may also pay for any repairs required to ensure compliance with VA minimum property requirements (MPRs). Veterans are highly encouraged to negotiate the cost of the wood destroying pest inspection and repairs with the seller. In addition, VA circular 26-22-11, states an itemized invoice identifying the Veteran and the property is required to verify the cost on the Closing Disclosure Statement.

This misconception, that sellers must pay all closing costs, we likely stems from the fact that the VA loan is truly one of the most generous loans with the amount that seller concessions (paid closing costs) can cover. Sellers can give up to 4% of the established reasonable value of the property. In that calculation the 4% does NOT include any discount points or closing costs. If seller concessions cover all the closing costs and there are remaining monies available at the balance of closing, then that money may be used to pay off a Veteran's debts as well. While, this is definitely not required, it is acceptable. This makes VA home loans one of the best for ensuring the VA eligible buyer has their best foot forward when owning a home.

MISCONCEPTION #7

"VA LOAN CAN ONLY BE USED ONCE."

FALSE. Veterans can absolutely use their VA loan more than once; it is a lifetime benefit. Every individual Veteran will have a unique situation.

Not only can a Veteran use their VA loan more than once, but they can also **have multiple VA loans at the same time.** Yes, they can. It all depends on the **Veteran's VA entitlement amounts.** Like other types of mortgages, VA loans are subject to regulation, disclosure, and VA lending guidelines. The VA loan benefit can be used multiple times and the corresponding funding fee will vary for subsequent uses.

VA-BACKED PURCHASE AND CONSTRUCTION LOANS

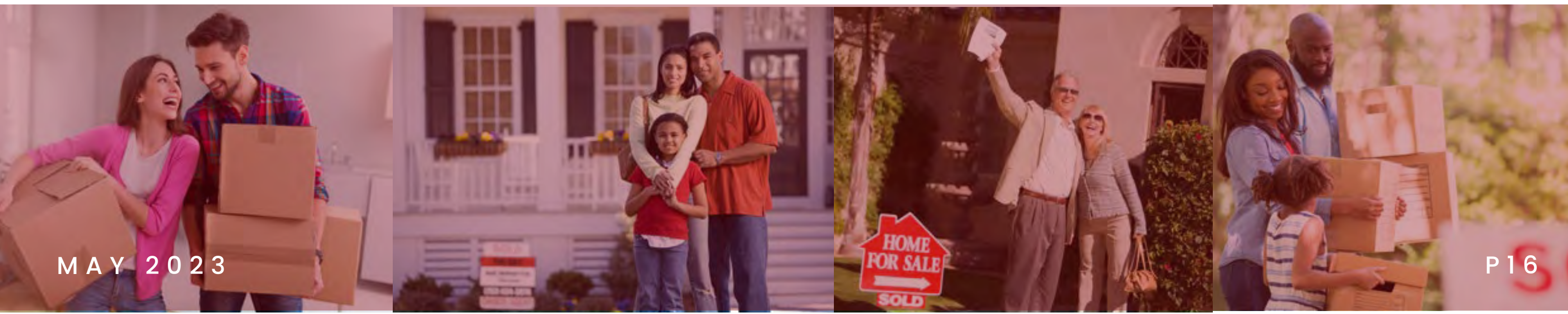
Effective 7 April 2023

	If the down payment is...	Your VA Funding Fee will be...
First Time Use	Less than 5%	2.15%
	5% or more	1.5%
	10% or more	1.25%
After First Time Use	Less than 5%	3.3%
	5% or more	1.5%
	10% or more	1.25%

Rates for Veterans, active-duty servicemembers, and National Guard and Reserve members

VA LOAN GUARANTY

The VA guarantees the VA loan once the loan is approved, and closing is complete. If the Veteran borrower cannot repay the loan or a later owner does not pay (after assumption), the lender is protected. A VA mortgage guarantee can cover up to 50% of a loan up to $45,000. Veterans with entitlements of up to $36,000 may guarantee a maximum of 40% of loans between $45,000 and $144,000.



VA LOAN GUARANTY

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
$144,001 to $647,200	25% of the loan amount	Minimum guaranty of 25% on IRRRLs
Greater than $647,200	The lesser of 25% of the VA county loan limit OR 25% of the loan amount	Minimum guaranty of 25% on IRRRLs

Source: U.S. Department of Veteran Affairs 2023. Amount noted $726,200 (current FHFA conforming loan limit (average) and will adjust based on FHFA county limits.

The maximum VA loan guarantee amount is the lesser of either 25% or $104,250, which is 25% of the Freddie Mac conforming loan limit for a single-family residence when the VA loan is used a second (or more) time.

If the first use of entitlement is to finance over the VA county loan limit there is **NO cap** on the amount the VA will guarantee at 25% of the loan amount. This can be a loan for purchasing or construction of a home, purchasing a residential unit in a condominium, up to four-unit multifamily where the VA Entitled party occupies one unit as their primary residence or refinancing an existing VA loan. *Note: This figure will change annually.*

In general, Veterans can borrow up to the property's reasonable value or the purchase price, whichever is less, plus a funding fee, if applicable. There is a limit of 90 percent of the property's value on some refinance loans, plus any funding fee that must be paid. VA requires an appraisal to determine the reasonable value of the property.

In addition, VA loans cannot exceed either the appraisal value or the purchase price, plus the VA funding fee and energy-saving improvements, if applicable.

VETERANS WITH FULL AND QUALIFYING ENTITLEMENT HAVE NO LOAN LIMIT.

VA LOAN UNDERWRITING GUIDELINES

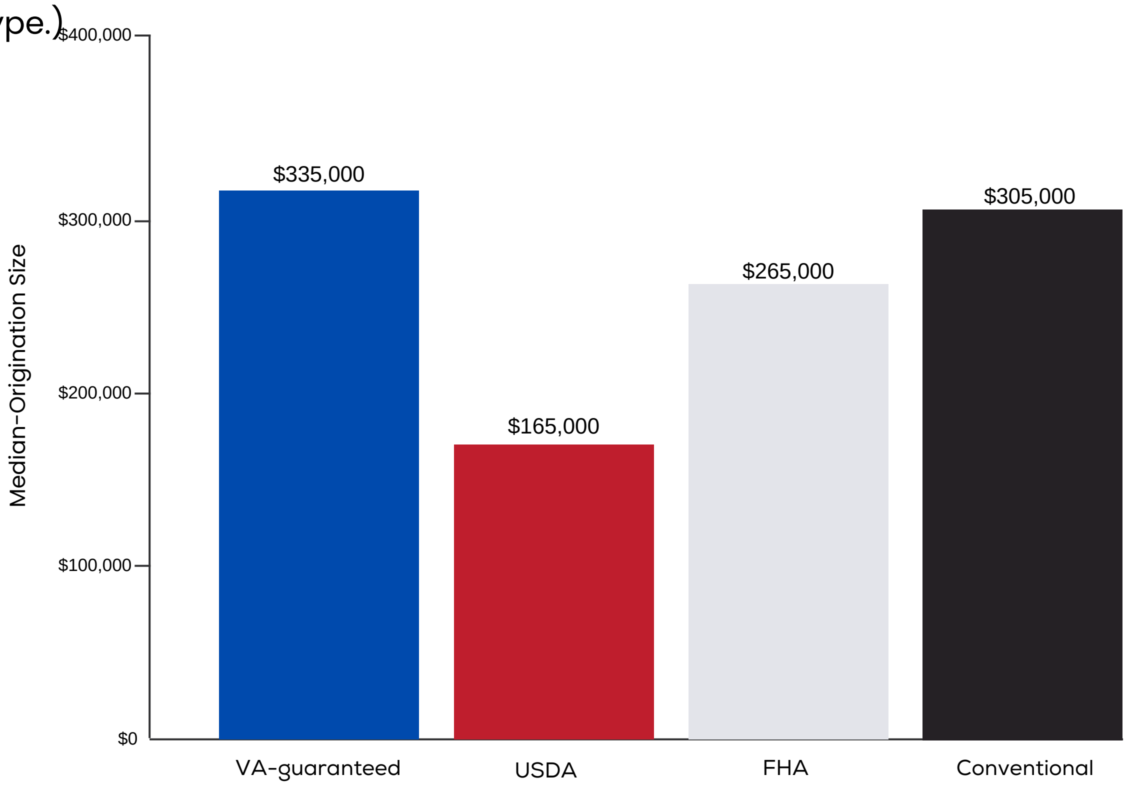
When a lender underwrites a VA loan, the lender follows the underwriting standards established in the Lender's Handbook of the VA Pamphlet (VA Pamphlet 26-7 Revised), which establishes the groundwork for the fundamental baseline approval of a VA home loan.

1. There is no specific credit score required for Veterans; however, satisfactory credit is preferred, and some lenders may have additional overlays.
2. Stable finances are required to repay the loan, and disability income can be utilized and grossed up to increase eligible income, including certain retirement incomes and alimony/child support. Additionally, Basic Allowance for Housing (BAH), and additional military pay such as housing allowance, sustenance, etc., can be used as a financial resource. Service members living off-post or off-base receive BAH, a stipend that helps with housing costs. The BAH does not have restrictions preventing service members from renting. A monthly allowance like this can help a borrower obtain a VA loan and purchase a home.
3. Active-Duty service members who have served 90 days of continuous commitment can qualify for a VA loan.
4. The residual income (net effective income minus monthly shelter expenses) is calculated in accordance with regional tables. Note: grossed up income cannot be included for residual and the higher residual requirement for higher DTI.
5. An acceptable ratio of total monthly debt payments to gross monthly income, even if this ratio exceeds acceptable levels.

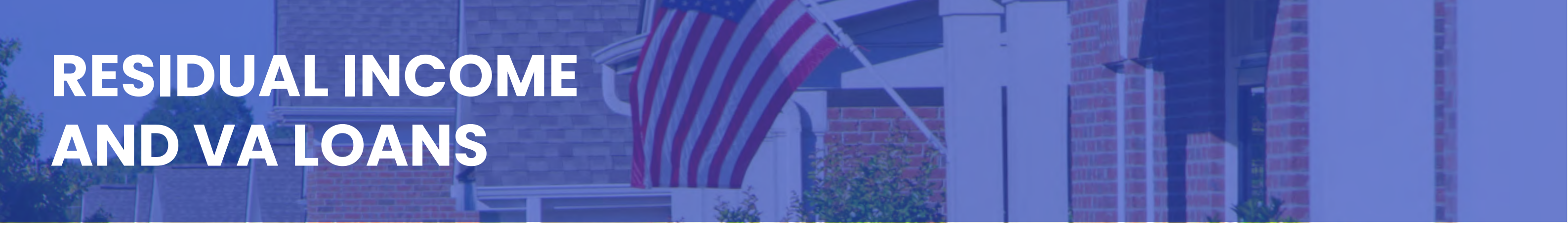
VA loans have an acceptable debt-to-income ratio of 41%; however, if the debt-to-income ratio is higher than 41%, other credit factors may still allow the VA loan to be approved including the amount of residual income. Since the VA home loan guarantee covers 25% of the outstanding loan amount, it will be up to the individual lender to underwrite the VA loan based on its policy and its secondary market strategy. At $335,000 the median VA loan amount was the largest of all loan types in 2022 (see the chart below for a comparison of purchase loan amounts by loan type.)

2022 ORIGINATIONS

MEDIAN HOME PURCHASE LOAN SIZE BY LOAN TYPE



Source: HMDAVision, 2022, HMDA Modified LAR Data, Home Purchase, 1-4 Units



RESIDUAL INCOME AND VA LOANS

What is residual income? Residual income refers to the amount left over after all major expenses, including mortgage payments, have been paid. Location, loan amount, and family size affect residual income. A VA loan is still approvable if residual income exceeds the DTI requirement by 20% or above. Compensating factors and the use of automated underwriting systems help mortgage loan officers determine acceptable DTI ratios with accurate data. Additionally, a Joint Loan (commonly considered a cosigner) can be added to the loan application. A Joint Loan Applicant on a VA loan may be a spouse or an unmarried member of the military who contributes to the borrower's lower debt-to-income ratio. If a borrower has a co-borrower, the lender will also look at their financial situation. To increase the chances of qualifying, the borrower should choose a co-borrower with a regular source of income and a good credit score. A Joint Loan with a co-borrower who is not a Veteran or Active-Duty member can apply, but in this situation, a portion of the VA Loan Guaranty would be required as a down payment on the property.

VA LOAN FULL ENTITLEMENT

The VA no longer has first lien loan limits IF the benefit has not been used previously. If the benefit was previously used and subsequently restored, then the standard conforming loan limits apply for the VA Home Loan Benefit and is considered Full Entitlement.

If any of these conditions are met, the borrower has full entitlement:

- The borrower has never taken advantage of their home loan benefit, or
- The VA loan the borrower previously had has been fully repaid, and the property was sold (in this case, the borrower would have their full VA entitlement again), or
- The home loan benefit has been used, but the borrower had a foreclosure or compromise claim (also called a short sale) and has repaid in full.

Note: Additional entitlement, bonus entitlement, and tier 2 entitlement are terms often used. The VA uses these terms when communicating with lenders about VA-backed loans over $144,000. These terms will not be required when a borrower applies for a loan.

VA LOAN REMAINING ENTITLEMENT

In the event the borrower has remaining VA home loan entitlement, their VA home loan limit will be determined by the county loan limit in their county. In the event of a loan default, the VA will pay the borrower’s lender up to 25% of the county loan minus any entitlement they have already used. The county loan limits are available here. The remaining entitlement can be used to take out another subsequent VA home loan, either alone or in conjunction with a down payment.

These scenarios may indicate that the borrower still has remaining entitlement:

- The borrower's VA loan is active, and the borrower is still repaying it, **or**
- The borrower owns the home outright and has already paid off a previous VA loan, **or**
- The borrower's VA loan was refinanced into a non-VA loan, and they still own the home, **or**
- In the past, the borrower made a compromise claim (short sale) on a VA loan that was not repaid in full, **or**
- If the borrower transferred their home's title to the bank holding their mortgage as part of a deed in lieu of foreclosure on a previous VA loan, **or**
- The VA foreclosed on an earlier loan the borrower took out and fully repaid the loan.

IN CONCLUSION

Veterans, their families, and professionals benefit from a thorough understanding of the VA loan product. In this white paper, professionals in the industry examined seven misconceptions associated with VA home loans:

VA loans are denied at a higher rate. ***No, VA loans have the lowest denial rate among all products.***

VA loans are expensive for Veterans. ***No, VA loans have the lowest origination fees, the lowest interest rate, and the lowest rate spread.***

People with weak financial backgrounds use VA loans and other "no down payment" mortgages to buy homes. ***No, in our study, Veteran homeowners have an 18x higher net worth than home renters.***

FHA or Conventional loans are better for Veterans than VA loans. ***No, Veterans have the option of a low interest rate, availability of special features for first-time homebuyers, closing costs are strictly regulated by the VA, and no down payment through the VA loan program.***

VA loan appraisals are slow to process and usually come back with low values. ***No, on average, VA loan appraisals take seven to ten days to complete, which is typical of both Conventional and FHA loans.***

Sellers have to pay all closing costs. ***No, fees for origination, appraisal, title, discount points, credit reports, and well and septic inspections must be paid at closing and can be paid by the Veteran. And this now includes WDI inspection and repair fees.***

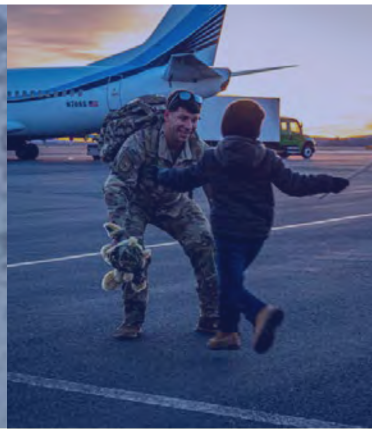
VA loans can only be used once. ***No, VA loans must abide by underwriting guidelines but subsequent and repeated use is allowed.***

GET TO KNOW VA LOANS

We encourage all stakeholders to engage in a rich discussion and to learn more about our Veterans, VA lending, and to understand who the VA lenders and real estate agents are in their local markets and how they are currently serving our Veterans.

The VA loan and lending process can be improved by collaborating and partnering with fellow professionals to learn best practices. In addition, we see a huge opportunity to improve the VA lending experience through data for all stakeholders, particularly Veterans.



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References & Notes

1. In HMDAVision, HMDA data was filtered to 1-4 Units.
2. https://www.benefits.va.gov/WARMS/docs/admin26/handbook/ChapterLendersHanbookChapter8.pdf
3. Veterans receiving compensation for a service-related disability are exempt from paying the funding fee.
4. The rate spread is calculated by the lender per CFPB methodology and reported in lender's HMDA LAR. It is the spread between the Annual Percentage Rate (APR) and a survey-based estimate of APRs currently offered on prime mortgage loans of a comparable type utilizing the "Average Prime Offer Rates" fixed table or adjustable table, action taken, amortization type, lock-in date, APR, fixed-term (loan maturity) or variable term (initial fixed-rate period), and reverse mortgage. CFPB maintains a rate spread calculator and notes that "The data source for the 1 year ARM product is CFPB market research. The data source for all other products in mortgage rate survey data is the Freddie Mac Primary Mortgage Market Survey®."
5. ACS does not give insight into what kind of mortgage loan homeowners hold.
6. The public release of the VA loan groups VA loans with other government-sponsored loans (but not FHA), a cohort dominated by VA loans.
7. HMDA Modified LAR data analysis in HMDAVision.
8. HMDA Modified LAR data analysis in HMDAVision. For details about the underlying data, email Polygon Research at info@polygonresearch.com.