VA LOANS

ADDRESSING VA LOAN MISCONCEPTIONS & VALIDATING WHY YOU SHOULD WORK WITH VETERANS

June 2025

Methodology

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

1. Extensive analysis of data sets that inform our understanding of the VA loan described in this paper.

2. Extensive use of the VA lending expertise of Vetted VA loan originators, many of whom are Veterans.

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.

Notes on Closing Costs

We used data from HMDA Modified LAR (Loan Application Register, 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	Box B & C Total Loan Costs	Box J Lender Credits
Application, Underwriting, and Discount Points	Costs for Services Borrower Did Not Shop For (e.g. appraisal fee, credit report, VA funding fee, flood, and tax research, etc.) Costs for Services Borrower Did Shop For (e.g. survey fee, title fees - title closing fee, lender's title insurance, title documentation, title examination fee, etc.	Lowers amount Veteran pays at closing by absorbing costs in exchange for higher interest rate over life of loan.

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, Homeowners' Association fees, owner's title insurance, and real estate commissions.

Data

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

HOME MORTGAGE DISCLOSURE ACT (HMDA)

124+ MILLION LOAN-LEVEL TRANSACTIONS ANALYZED

The main data source used to analyze various aspects of VA originations compared to other loan types is the HMDA Modified LAR, which contains loan-level information about financial institutions' lending activity for loans secured by a dwelling. HMDA is a loan-level data set released annually in March and dynamically updated yearly. Polygon Research ingests and updates the data quarterly and presents an interactive dashboard with 7-years of information comprising more than 124+ million loan-level transactions. This analysis is based on HMDAVision 2025.04.01 updated as of 14 April 2025.

The HMDA data gives an in-depth view into U.S. mortgage market activity, and we used it extensively for review of VA lending in the context 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), the interest rate, and the rate spread.

Polygon Research has made this data usable in its app, HMDAVision, which was used to distill the analysis for the tables and charts. HMDAVision gives the fullest and deepest picture available of U.S. mortgage dynamics from application to sale to the secondary market. At the same time, the HMDA LAR data has the constraints that it does include credit scores, application and closing dates (beyond 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 gathered on each member of every household. Statistical techniques are used to extrapolate the results; the outcome is microdata weighted to represent the entire (civilian non-institutional) U.S. Key Dimensions of interest in the data are Race, Ethnicity, Sex, Age, Homeownership Status, Veteran Status, Education, Income, Industry, Occupation, Employment Status, Household Type, and Relocation.

70K

US Households Surveyed

The demographics data about the size of the VA population, especially the information points around Veterans with a service-related disability, comes from the CPS ASEC. The most recent available data set is from March 2024. Polygon Research took the microdata (PUMS) data for five years of ASEC and monthly CPS data and activated demographics insights in its CPSVision app. The data is an excellent gauge at the national level, state, and large metropolitan statistical area, but we advise our users to be careful with smaller geographies.

AMERICAN COMMUNITY SURVEY (1-YEAR)

ACS is an annual survey sent to roughly 3.5 million households annually. Polygon Research models the microdata collected in its app, CensusVision. The ACS universe includes both the civilian and military population in households and in group quarters (that is, the resident population). The group quarters population consists of the institutionalized (such as people in correctional institutions or nursing homes) and the non-institutionalized (most of whom are in college dormitories). Key Dimensions of interest in the 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 “neighborhood” (PUMA) level. We chose to include analysis from the ACS in order to make comparisons between rent payments and mortgage payments for Veterans and in the context of other populations and circumstances. The microdata does not allow analysis at the census tract level in order to preserve the anonymity of the respondents; for this, we use summarized 5YR ACS data available in HMDAVision.

FEDERAL RESERVE BOARD, SURVEY OF CONSUMER FINANCES

Polygon tabulated the most recent SCF, considered the national gold standard for benchmarking household wealth. This is a triennial survey administered by the Board of Governors of the Federal Reserve System; the most current available year is 2022. The survey measures the net worth of American Primary Economic Units (households/families), with breakdown by Assets and Debts. Additionally, the survey goes out to about 5,800 families with statistical techniques to extrapolate to the entire U.S. Hundreds of questions are asked; the result is microdata weighted to represent the entire U.S.

We included this information in our analysis because Veteran status is among the key dimensions (Race and Ethnicity; Age; Homeownership Status; Veteran Status; Education; Employment Status), and in this way, we could analyze and compare the wealth of Veterans homeowners to non-Veterans homeowners. Moreover, among the thousands of data points in the SCF, there are a few that we analyzed to see the loan type preference pertaining to VA loans. Finally, the SCF is considered a leading indicator of household wealth in the U.S.

All SCF analysis on Veterans and non-Veterans in this analysis was based on principal residence of house, townhouse, apartment, or other, which excludes mobile homes, ranches, and farms.

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. Of the reported 18.25M Veteran population, just 3.79M Veterans utilize he VA home loan benefit. 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 that regular consultation of the VA Benefits site: 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 some of 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.

THE MOST COMMON MISCONCEPTIONS REGARDING VA LOANS:

VA loans are denied at a higher rate (risk).

VA loans are expensive for Veterans.

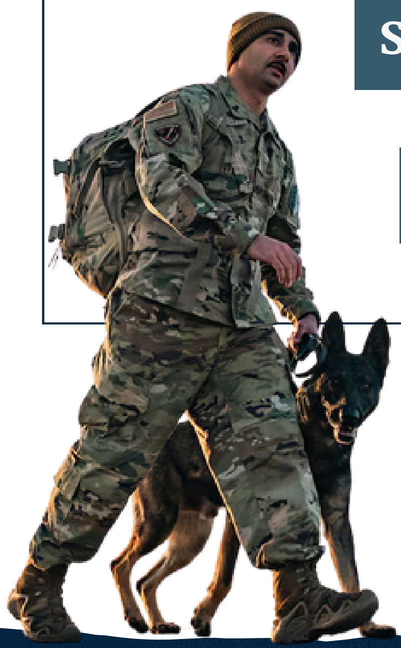
People with weak financial backgrounds use VA loans and other "no down payment" mortgages to buy homes.

FHA or Conventional loans are better for Veterans than VA loans.

VA loan appraisals are slow to process and usually come back with low values.

Sellers have to pay all closing costs.

VA loans can only be used once.



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. Making VA loans offers an unacceptable risk to sellers.

THE LOWEST DENIAL RATE

We used Polygon Research's HMDAVision to comb through the 2024 HMDA Modified LAR data to gather granular insights into loan pull-through, the loan life cycle of every loan, and lender by country, state, county, and census tract, as well as borrower demographics and loan attributes.

As the table below shows, the VA home purchase loans are the loan type with the lowest denial rates across the board. At a 8.4% denial rate, VA loan borrowers across all demographics have better chance of obtaining a loan, compared to Conventional (15.6%), FHA (12.7%), and USDA (12.0%) loans.

Furthermore, VA loans show the smallest disparity in denial rates between minority and non-minority applicants. Minority VA loan applicants have a denial rate of 10.3% which is 3.6% higher than non-Hispanic white applicants. Minority borrowers who are VA eligible and choose VA loans experience less disparity compared to the wider gaps seen in other loan types (Conventional: 8.3%, FHA: 5.5%, USDA: 4.1%).

Loan Denials Comparison- Home Purchase, 1-4 Units

Loan Type	Denials	NetApplications	All Race/Ethnicity Denials Rate	Non-Hispanic White Denials Rate	Minority Denials Rate	Minority Delta
Conventional	494,302	3,168,708	15.6%	12.2%	20.5%	8.3%
FHA	90,626	7,14,935	12.7%	9.3%	14.7%	5.5%
VA	29,252	350,020	8.4%	6.7%	10.3%	3.6%
USDA	5,149	43,000	12.0%	10.7%	14.8%	4.1%

Source: HMDAVision, 2024 HMDA Modified LAR Data, Purchase, 1-4 units.

HMDA data on VA purchase loan applications for 1-4 unit properties shows positive movement: the overall denial rate decreased from 9.2% in 2022 to 8.4% in 2024 regardless of the VA borrower demographics. Concurrently, the denial rate disparity between minority applicants and non-Hispanic White applicants is narrowing, with the "Minority Delta" decreasing from 3.8% in 2022 and 2023 to 3.6% in 2024.

8.4% to 15.6%

8.4% denial rate across all demographics for VA borrowers compared to 15.6% for Conventional borrowers.

VA Loan Origination Rates

Analyzing the 2024 loan origination data and comparing originated loans to net applications (i.e. loans that reached the underwriting table), we found that among eligible borrowers, VA loans are being originated at a higher rate than other loan types. The table below shows that VA loans have a higher origination rate, 89.3%, compared to the overall origination % across all loan types of 84.45%.

Furthermore, there is evidence of a higher minority origination rate and a smaller gap between minority and non-Hispanic white origination rates for VA loans. The origination rate for minority borrowers is highest with VA purchase loans at 87.4% compared to just 75.4% for conventional. This indicates that VA loans provide better access not just to minority borrowers but to all applicants compared to other loan types. The bottom line is that the VA loan gives the best chance to borrowers to qualify for a home purchase mortgage.

ORIGINATION RATES COMPARISON

Loan Type	Originations	NetApplications	All Race/Ethnicity Originations Rate	Non-Hispanic White Originations Rate	Minority Originations Rate	Minority Delta
Conventional	2,543,312	3,168,708	80.3%	83.9%	75.4%	-8.6%
FHA	605,674	714,935	84.7%	88.0%	82.9%	-5.2%
VA	312,587	350,020	89.3%	91.0%	87.4%	-3.5%
USDA	3,5885	43,000	83.5%	84.6%	81.0%	-3.6%

Source: HMDAVision, 2024 HMDA Modified LAR Data, Purchase, 1-4 units.

8.4%

VA Loans have the lowest denial rate compared to other mortgage types.

89.3%

VA loans have higher originations indicating better affordable and accessible home loan financing for all eligible Veterans compared to other mortgage types.

Misconception #2
"VA loans are expensive for veterans"

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 the below table, we compare the pricing of the four major loan types by a variety of dimensions, including:

- CLTV
- Credit Score*
- Interest Rate
- Net Charges and Credits
- Lender Credits
- Discount Points
- Origination Charges
- Loan Closing Costs (Costs Shown on Closing Disclosure) and,
- Rate Spread

COMPARATIVE PRICING ANALYSIS FOR HOME PURCHASE

Loan Type	Originations	Average Loan Size	Average FICO	Interest Rate	Rate Spread	Net Charges & Credit BPS	CLTV
Conventional	2,543,312	$378,800	758	6.768%	0.22	85	78.91%
FHA	605,674	$318,815	695	6.274%	0.41	144	95.46%
VA	**312,587**	**$390,996**	**728**	**6.124%**	**-0.37**	**85**	**94.91%**
USDA	35,885	$175,778	700	6.355%	-0.19	130	98.02%

*Average estimated credit score

Source: HMDAVision, 2024 Modified LAR data, Purchase 1-4 units

Loan dimensions selected are the clearest indicator of the affordability of VA loans in comparison to other loan types. Two key indicators that support the flexibility of VA lending and lower interest rates are the average estimated credit score of 728 and the 6.124% interest rate. Lenders are provided flexibility in working with Veterans with various credit backgrounds to qualify them for a VA loan.

COMPARING VA PURCHASES TO CONVENTIONAL FINANCING FOR PURCHASING A $465,000 HOME

Loan Type	30 YR Fixed VA	30 YR Fixed Conventional	Difference
Loan Size	$443,000	$358,524	$84,536
CLTV	94%	79%	15%
Credit Score EST	733	762	(29)
Interest Rate	6.107%	6.634%	-0.527%
Total Loan Costs	$9,572	$6,936	$2,636
Downpayment	$21,940	$106,476	-$84,536
Cash Outflow at Closing	$31,512	$113,412	-$81,901
Cash Outflow for 7 years	$226,005	$195,139	$30,867
Combined Cash Outflow	$257,517	$308,551	-$51,034

Source: Polygon Research, HMDAVision, 2024 Modified LAR data, Filters also include home purchase, 1-4 units. Values are Averages (Mean)

Purchasing a home is a significant investment, and selecting the right financing strategy is critical for both immediate affordability and long-term financial outcomes. Using detailed insights from the 2024 HMDA LAR data analyzed through HMDAVision, we've closely examined how VA loans and Conventional loans stack up under similar conditions, specifically, a 30-year fixed-rate term for financing a 1-4 unit home valued at $465,000.

In this scenario, the typical VA borrower secured a larger loan amount of $443,060, while their Conventional counterpart borrowed $358,524. The average VA Loan CLTV of 94% allowed eligible VA borrowers to finance most of the home value, leaving just 4-6% to be covered out of pocket. Conventional borrowers financed 79%, requiring them to cover the remaining 21% upfront. The VA loan's higher CLTV ratio reflects its design to maximize borrowing power, allowing eligible veterans and service members to take on a larger loan with less personal capital. In contrast, the Conventional loan's lower CLTV ratio demands a greater initial investment, which can strain a borrower's cash reserves.

One of the most striking differences between these financing options is the down payment required at closing in 2024. VA Loan down payment was $21,940 compared to Conventional loan down payment of $106,476. The VA loan's dramatically lower down payment ($84,536 less than the Conventional option) keeps initial out-of-pocket expenses low. For example, total cash due at closing for a VA loan, including the down payment and typical closing costs (e.g., around $9,572 based on industry averages), total $31,512. In contrast, the conventional loan's closing cash outflow could easily exceed $116,000 with the total loan costs added to the $106,476 down payment. In this way, VA loans represent something of a lifeline for borrowers who need to preserve liquidity for other priorities, such as furnishing their new home, building an emergency fund, or investing elsewhere.

To understand the broader financial implications, we also evaluated the total cash outflow over a 7-year period, a common timeframe before many homeowners refinance or sell. This figure includes the initial closing costs plus all mortgage payments made over 84 months:

- VA Loan total cash outflow: $257,517 = Approximately $31,512 at closing (down payment + closing costs) + $226,005 in payments (based on monthly payments of $2,732).
- Conventional Loan total cash outflow: $308,551 = Approximately $116,000 at closing + $192,551 in payments (based on monthly payments of $2,448).

VA borrowers save $51,034 over 7 years compared to their Conventional counterparts. Despite the VA loan's larger principal, this difference can be transformative for eligible borrowers, freeing up funds for other financial goals or providing a buffer against unexpected expenses.

Do VA Loans Require 100% LTV?

VA borrowers are not required to take 100% LTV but if they choose to, they can do so without PMI. The VA loan allows for a much lower down payment, making it easier for veterans to purchase homes.

Example Scenario of VA Loan Financing on 30-Year Fixed Rate Mortgage

Financing Property Value of $460,479	With VA Benefit (95.31% CLTV)	Without VA Benefit* (79.11% CLTV)
DOWNPAYMENT	$21,617	$96,190
LOAN AMOUNT	$438,862	$364,289
COSTS (WORSE CASE SCENARIO)	$26,156	$6,708
CASH TO CLOSE	$44,772	$102,898
MONTHLY PAYMENT	$2,714	$2,359
TOTAL LOAN PAYMENTS	$976,983	$849,299
TOTAL INTEREST COSTS	$538,121	$485,010
TOTAL COSTS OVER LIFE OF LOAN	$582,893	$587,907
TOTAL COSTS OVER 5 YEARS	$207,603	$237,739

*Veterans using a Conventional Loan

"When a Veteran is deciding between using their VA benefit versus a conventional mortgage, a VA loan allows for a much lower down payment, making it easier for veterans to purchase home."

SAVINGS FOR VA ELIGIBLE BORROWERS

Loan Type	Loan Size	CLTV	Interest Rate	Total Interest (HMDA)	Total Interest (APR)	Monthly Payment (HMDA)	Monthly Payment (APR)	Total Loan Costs
VA	$443,060	94.47%	6.11%	$525,538	$539,459	$2,691	$2,732	$9,572
Conv.	$358,524	79.02%	6.63%	$477,435	$510,671	$2,323	$2,448	$6,936

Action Type: Originations
Loan Term: 360
Property Value: 465000
Units: 1, 2, 3, 4
ARM/FRM: FRM
Loan Type: Conventional, VA
Loan Purpose: Purchase

The Total Interest Percentage (TIP) is an actual disclosure on the CD that reveals the total interest paid over a loan's lifetime as a percentage of the original loan amount. This disclosure allows for direct comparisons between different loan products. For a $465,000 home purchase with a 30-year fixed term, HMDAVision's dynamic calculation shows a VA loan having a 119% TIP compared to a Conventional loan's 131%. The difference of 12-13 percentage points demonstrates that the VA loan offers significant long-term savings for VA eligible borrowers.

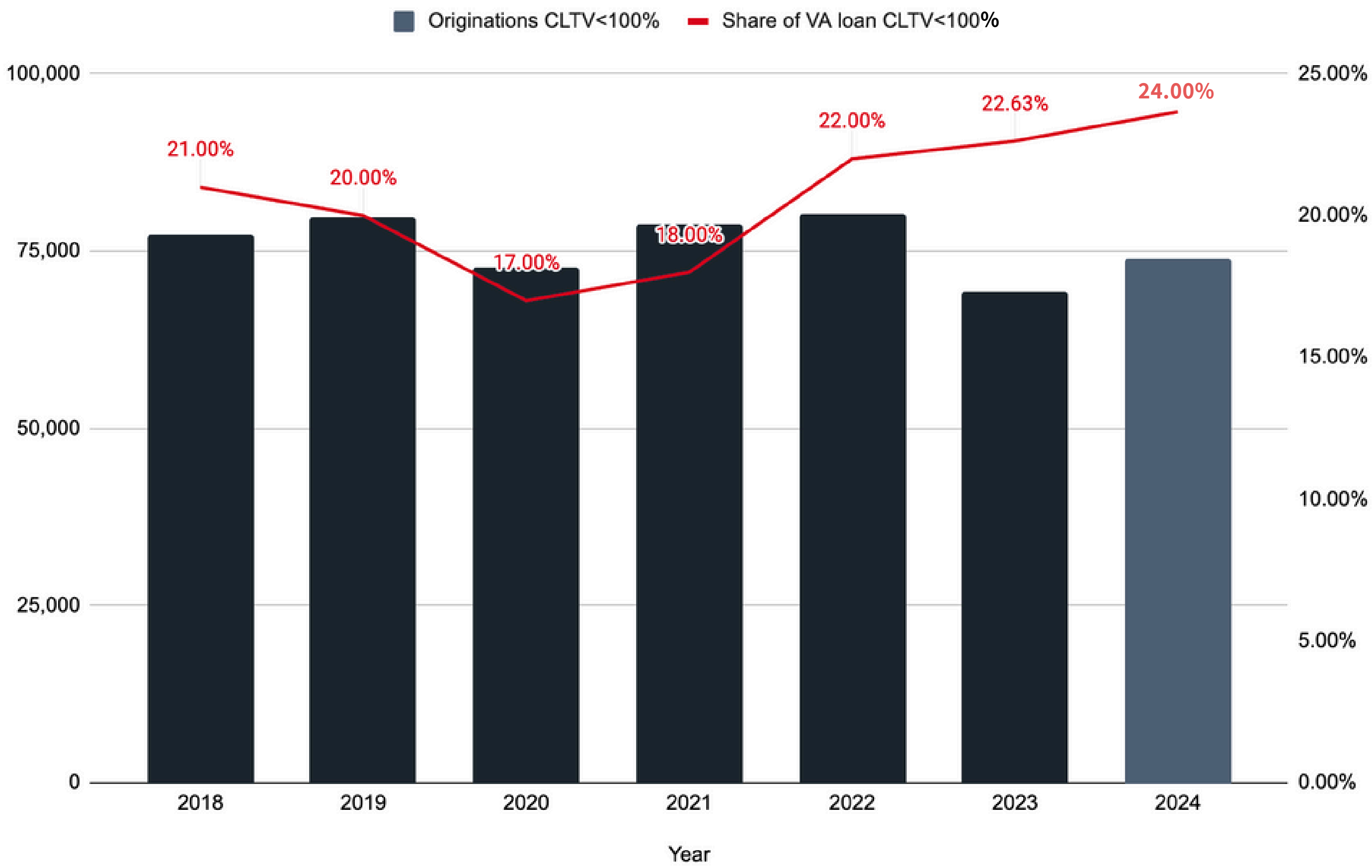
Average VA Purchase CLTV by Year

2019	2020	2021	2022	2023	2024
97%	98%	97%	96%	95%	95%

Source: Polygon Research: HMDAVision VA purchase 1-4 units Modified LAR data updated through April 2024

In 2022, the share of VA purchase loans with less than 100% CLTV was 21.6% of all VA purchase loans originated, up 3.6% from previous year. In fact, over the last 4 years, the share of VA purchase loans on 1-4 units has been between 17% and 22.6%, as shown in the figure below.

VA PURCHASE LOANS WITH CLTV LESS THAN 100%



Source: Polygon Research: HMDAVision, VA purchase, 1-4 units, Modified LAR data updated through April 2024.

Average CLTV Less Than 100% by Year

2019	2020	2021	2022	2023	2024
87%	87.4%	86%	84%	83%	82%

Source: Polygon Research: HMDAVision VA purchase 1-4 units Modified LAR data updated through April 2024

WHAT IS INCLUDED IN VA LOAN CLOSING COSTS?

Closing costs are the sum of all fees that must be paid to close the loan. Closing costs cannot be financed into the VA loan. Borrowers can negotiate with the seller to pay some or all of their closing costs to keep more money in their pocket. VA loans allow sellers to pay 4% of the loan amount as seller-paid costs (seller concessions). VA loans also allow sellers or any other interested party to contribute unlimited funds towards closing costs to include up to two discount points. If any judgments or credit balances exist, then excess seller concessions can be utilized to pay for other debts outside of standard closing fees.

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.

Closing Costs

UNLIMITED

Up to 2 discount points

Concessions

UP TO 4%

of Total Loan Amount

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 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 is 2.3% for first-time use (or as applied with multi-use). Both 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 Active-Duty servicemember with the Purple Heart award will have their funding fee waived for their VA Guaranteed loan.

1.25% to 3.3%

VA Funding Fee for standard purchase loans that supports the administration of the entire VA home loan program for all eligible Veterans.

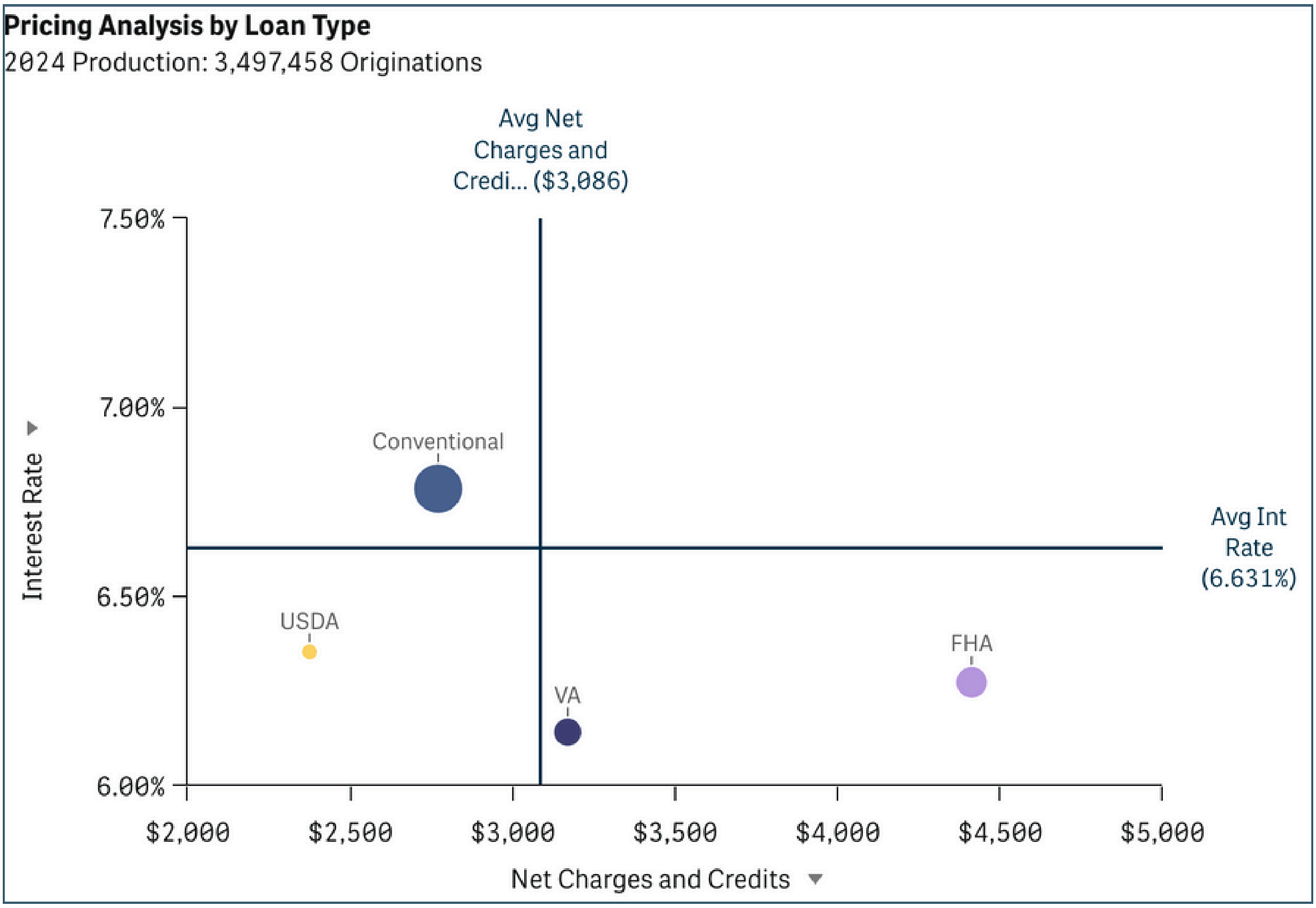
Interest Rates and Net Charges and Credits [4]

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.

In addition, as the pricing analysis scatterplot below shows, VA loans have the lowest pricing measures - lowest interest rate and one of the lowest Net Charges and Credits.

PRICING STATISTICS BY LOAN TYPE

Pricing Strategies 2024 (Purchase Loans)



Source: Polygon Research: HMDAVision, all purchase loans, 1-4 units, Modified LAR data updated through April 2024.

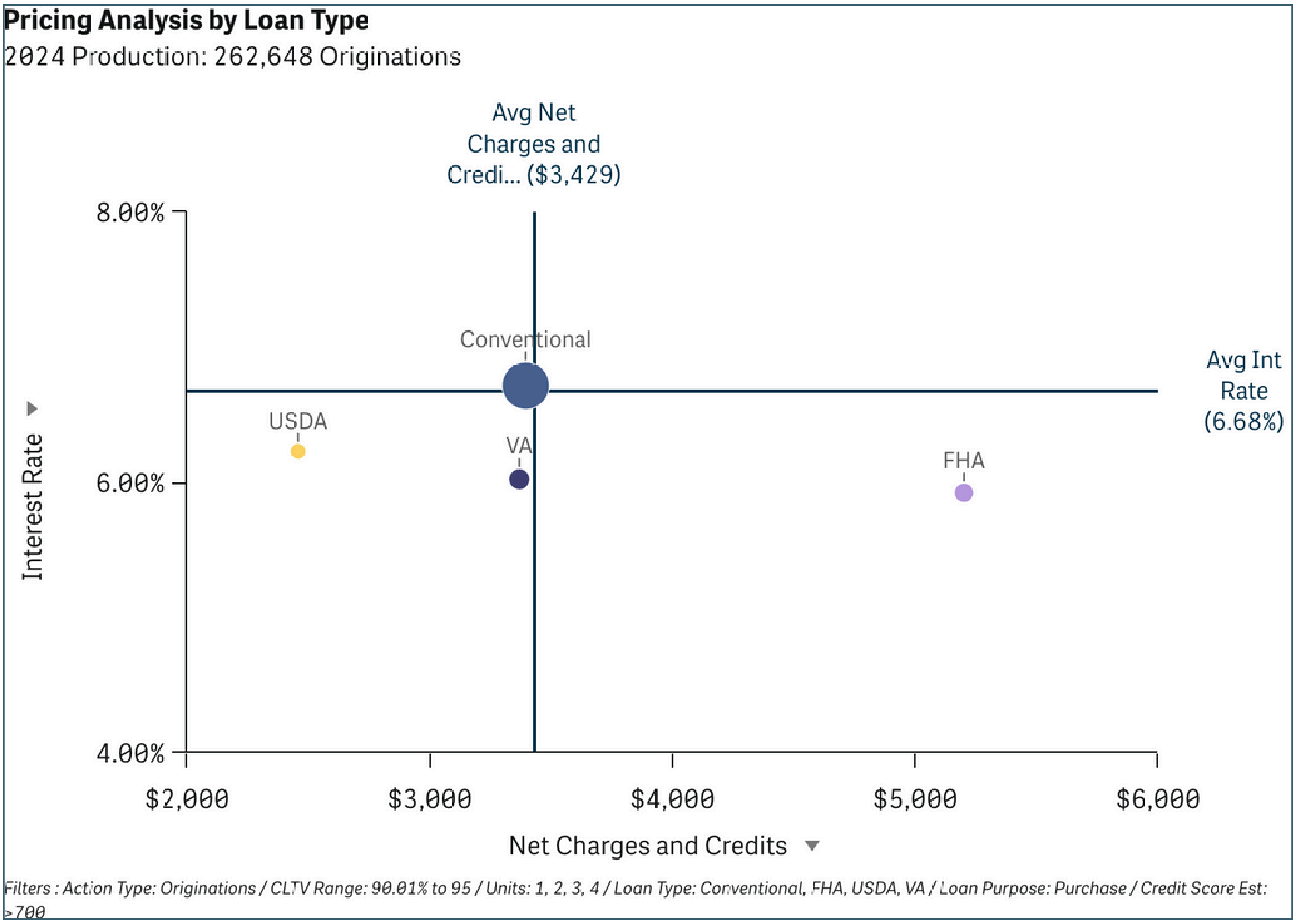
In the following chart, the 2024 pricing outcomes for VA purchases with a CLTV a range of 90.01% to 95% and an estimated credit score of 700 or more, had average net charges and credits of $3,368 and received an average interest rate of 6.023%. In both, VA interest rates on average lower for borrowers compared to other mortgage loan types.

As shown in the chart, VA interest rates and 'net charges and credits' are on average lower for borrowers compared to other mortgage loan types like Conventional and FHA for this specific segment (i.e. 1-4, Home purchase, CLTV 90-95%, and credit score >700).

> **“VA interest rates on average were lower for borrowers compared to other loan types.”**

PRICING STATISTICS BY LOAN TYPE

Pricing Outcomes for CLTV Range 90.01%-95% and Credit Score (Est.) 700+



Source: Polygon Research: HMDAVision, all purchase loans, 1-4 units, Modified LAR data updated through April 2024.

Lenders and Veterans negotiate the interest rate and points. The VA pamphlet states the Veteran and the seller can negotiate for the seller to pay all or some of the points, and the points may not be financed in the loan except with Interest Rate Reduction Refinancing Loans (IRRRLs). In addition, from the VA pamphlet, the seller, lender, or any other party may pay fees and charges, including discount points, on behalf of the borrower. This makes the 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 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 the monthly payments low for borrowers. Typically, PMI costs 0.5 - 1% of a loan amount per year, which can add up quickly.

Misconception #3

"People with weak financial backgrounds use VA loans and other
<u>NO DOWN PAYMENT</u> MORTGAGES TO BUY HOMES."

Veterans don't use VA loans because they have weak financial backgrounds. We compared the net worth of Veterans who used VA loans to purchase/own a home to Veterans who rented, using the most recent Survey of Consumer Finances (SCF), a triennial survey of U.S. families.

We find that Veterans who own their homes have a significantly higher net worth - 18x higher - than Veterans who rent their homes. Moreover, Veterans who rent their homes are older than the Veterans who own their homes, which is the opposite of the general population.

Source: 2023 SCF Data, Tabulated by Polygon Research. VA/Other refers to VA loans and other non-FHA government loans.

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

VETERAN HOUSING AFFORDABILITY 2023

Mortgage Cost Burden	Rent Cost Burden
20.6%	30.0%
Average Mortgage	**Average Rent**
$2,093	$1,531
HH Income Owners (Avg)	**HH Income Renters (Avg)**
$113,975	$73,157

Source: CensusVision, 2023 ACS 1-Year PUMS Data; includes only Veterans (i.e. excludes those currently on Active Duty or training for the National Guard) who own their homes with mortgage or rent their homes with cash rent.

With Veteran-homeowners with a VA loan having 18x higher net worth than Veteran-renters, and Veteran-homeowners with a mortgage-paying only 20 percent of household income on mortgage payments compared to Veteran-renters who pay about 28 percent.

It is reasonable to conclude that Veterans are better off purchasing a home than renting. VA loans allow Veterans to own their homes, and the whole loan can be financed without private mortgage insurance.

Misconception #4

"FHA or conventional loans are better for veterans than VA loans"

This depends on each individual Veteran's situation, and we will try to address it as objectively as possible.

Top Benefits of VA Loans

To answer why borrowers, choose VA loans, let's look at the most recent Survey of Consumer Finances. Scoping the survey responses to those where either the respondent or his or her spouse had military service, Veterans' predominant reasons given for choosing VA [6] loans were:

- Interest rate
- Special features for first-time homebuyers
- Amount of the down payment

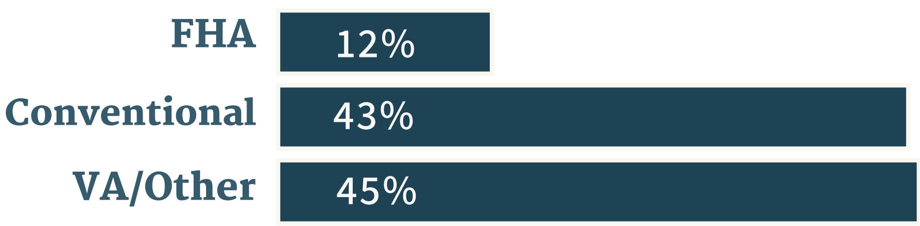
Veterans are provided with a lower interest rate through the VA Interest Rate Reduction Refinance Loan (IRRRL) program. VA IRRRL recipients also have the ability to skip the appraisal and proof of employment processes in most cases, do not need to verify debt-to-income or have a minimum FICO score check, can change loan terms, defer mortgage payments for two months, and can possibly get a faster closing.

VA Loans to Buy a Home

At the same time, among homeowners owning free and clear, Veterans outstrip non-Veterans 35% to 23%, which calls into focus the fact that many Veterans have already used the VA loan as a path to full ownership.

All this considered, the following bar 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.

VETERAN HOMEOWNER'S CHOICE OF MORTGAGE FINANCE



Source: 2023 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. Based on the 2024 HMDA Modified LAR Data, we examined the pull-through rate for minority borrowers by type of loan.

Loan Type	Originations	Applications	Minority Pull-Through Rate
Conventional	777,762	1,339,423	58.1%
FHA	297,838	445,205	66.9%
VA	104,951	154,419	68.0%
USDA	9,249	1,4129	65.5%

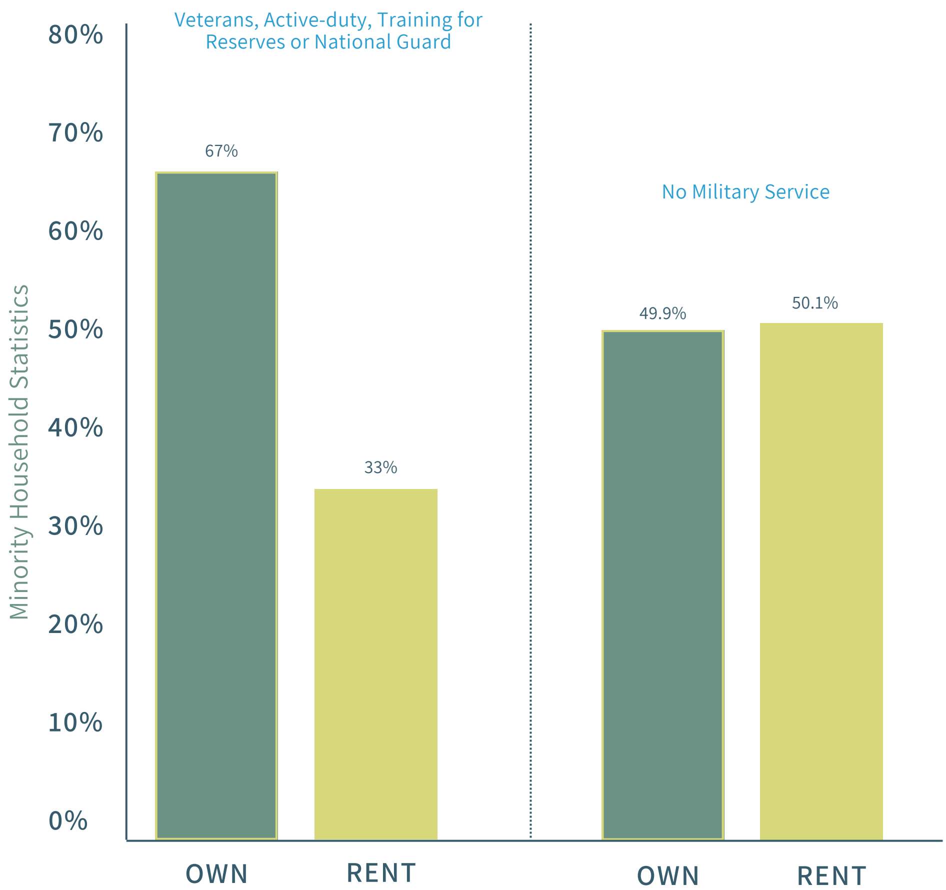
Source: HMDAVision, 2024 HMDA Modified LAR Data, Purchase, 1-4 Units, Minority Applicants

VA home purchase loans play an important role in facilitating homeownership for minority borrowers with the VA loan effectiveness in translating applications into successful originations.

Minority Veterans Benefit from VA Loans

Analysis from the CPS Pivot (CPS ASEC 2024 data, filtered for minority heads of household) reveals a significant positive correlation between veteran status and homeownership rates among minority households. Minority households with a veteran head of household exhibit a solid 66.6% homeownership rate. This contrasts sharply with minority households led by a non-veteran, where only 49.9% own their homes. Minority households with a veteran head of household have a 16.7% higher homeownership rate. Military service and associated benefits, such as VA loans, play an important role for significantly improving homeownership outcomes for minority households.

"VA eligible minority borrowers are well served by their earned VA benefit."



Source: Polygon Research, CPS Pivot (ASEC 2024), Filtered for Minority Head of Households.

MISCONCEPTION #5

"VA loan appraisals are slow to process and usually come back with low values."

On average, VA loan appraisals take seven to ten business days to complete, which is typical of both Conventional and FHA loans. They also have the VA RLC backing to motivate VA Approved Appraisers at efficient completion timelines AND allow the VA Eligible Borrower up to two different rebuttal processes for valuations.

VA LOAN APPRAISALS AND THE TIDEWATER INITIATIVE

In cases where the appraised value of a home falls below the contract purchase price agreed to between buyer and seller, The Tidewater Initiative (or Tidewater for short) is used.

A home might fall through if an appraised value is too low for the seller, and the Veteran buyer would be left out of luck. As a result of Tidewater, buyers and sellers are given the opportunity to present their case for the purchase price and appeal if needed.

STEPS OF THE TIDEWATER PROCESS

The Tidewater appeals process consists of the following steps:

- The VA Loan buyer and seller reach a price agreement;
- An agreement is presented to the lender by the buyer;
- A VA Appraisal is ordered by the lender, completed by a VA Appraiser;
- VA Appraisers can invoke the Tidewater Initiative;
- The point of contact notifies the parties involved in the sale;
- There is a two-day window for parties involved to provide information;
- Information is reviewed, and a decision is made by the Appraiser.

RECONSIDERATION OF VALUE

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

The ROV requires a letter from the borrower stating why the appraised value should be increased. This is the only loan where a Veteran borrower is given two chances to dispute and address the value, unlike Conventional and FHA loans.

5–10

Average appraisal timelines, depending on property locations.

24/2

Typically notified within 24 hours and given two business days to provide additional comparable sales information.

Procedures for Alternative Evaluation Methods

As of July 27, 2022 the VA released Circular 26-22-13 which prescribes the alternative methods for VA Appraisers to use when evaluating properties for VA financing. This circular updates 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 need and give the LAPP flexibility to serve the VA Eligible borrower more effectively and efficiently in accordance with their review process.

Misconception #6

"Sellers have to pay all closing costs."

This is an old holdover misconception that has been addressed in the VA Lender Handbook Chpt. 8.
Fees and Charges the Veteran-Borrower CAN Pay:
Appraisal and Compliance Inspections, Recording Fees, Credit Reports, Prepaid Items, Hazard Insurance, Flood Zone Determination, Survey, Title Exam, Title Insurance, Special Mailing Fees, VA Funding Fee, MERS Fees, Origination Fees, and others authorized by the VA. - Pages 8-7,8.

Fees and Charges the Veteran-Borrower CANNOT Pay:
Certain Itemized Lender Fees, Attorney Fees for the Lender, Real Estate Brokerage Fees*, Prepayment Penalties, HUD/FHA Inspection Fees for Builders - Page 8-10.

Seller Concessions: Sellers can contribute up to 4% of the established reasonable value of the property. This 4% does not include discount points or closing costs. Excess seller concessions can be used to pay off veteran debts if closing costs are covered - Pages 8-12 to 8-13.

This misconception more than likely stems from the fact that the VA Loan is one of the MOST generous with the amount that Seller concessions (paid closing costs) can cover. Sellers can give up to 4 percent of the established reasonable value of the property. In that calculation the 4 percent does NOT include 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 can be used to pay off Veteran debts as well. So, while this is not required, it is acceptable, and makes VA Home Loans one of the best for ensuring the VA Eligible Buyer has the best foot forward when owning a home.

> "...Veterans may be charged wood destroying pest inspection fees, where required by the NOV [Notice of Value]. Veterans may also pay for any repairs required to ensure compliance with MPRs [Minimum Property Requirements]. Veterans are encouraged to negotiate the cost of the wood destroying pest inspection and repairs with the seller."

* Circular 26-24-14 - June 11, 2024 - The VA distributed Temporary Local Variance for Certain Buy-Broker Charges. At the time of first press of this White Paper this is the only directive that has authority to override Chapter 8, section 3 - Fees and Charges the Veteran-Borrower CANNOT Pay. Please continue to monitor upcoming circulars and local direction for changes that may affect your market area.

Misconception #7

"VA loans can only be used once."

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 funding fee will vary for subsequent uses.

VA-Backed Purchase and Construction Loans

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

Loan Type	If your 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%

The VA Loan Guaranty

The VA guarantees the VA loan once the loan is approved and closing is complete. If the 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 percent 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.

Loan Amount	Maximum Potential Guaranty	Special Provisions
Up to $45,000	50% of the loan amount	Minimum guaranty of 25% on IRRRLs
$45,001 to $56,250	$22,500	Minimum guaranty of 25% on IRRRLs
$56,251 to $144,000	40% of the loan amount, with a maximum of $36,000	Minimum guaranty of 25% on IRRRLs
$144,000 to FHFA loan limit	25% of loan amount	Minimum guaranty of 25% on IRRRLs
Greater than FHFA loan limit	The lesser of 25% of county loan limit OR 25% of the loan amount	Minimum guaranty of 25% IRRRLs

Source: U.S. Department of Veteran Affairs, VA Lender Handbook, VA Pamphlet 26-7

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.

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.

- There is no specific credit score required for Veterans; however, satisfactory credit is preferred and some lenders may have additional overlays.

- Stable finances are required to repay the loan, and disability income can be utilized and grossed up to increase eligible income, including certain retirement 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.

- Active Duty service members who have served 90 days of continuous commitment can qualify for a VA loan.

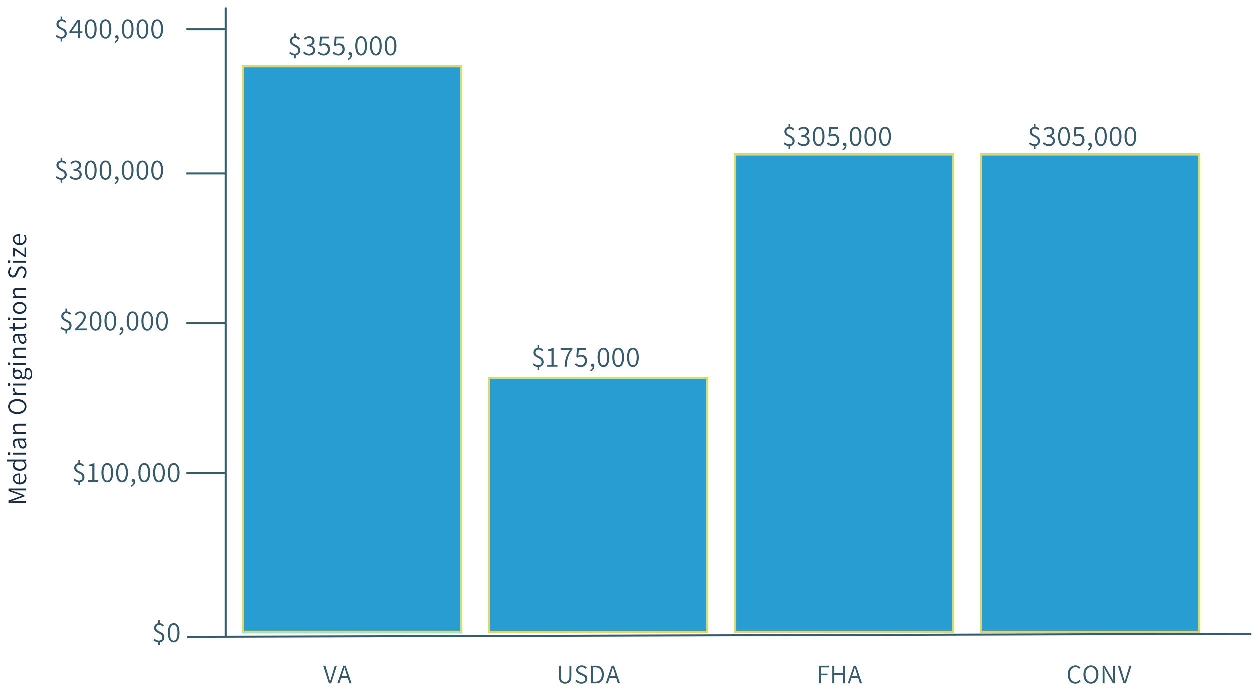
- The residual income (net effective income minus monthly shelter expenses) is calculated in accordance with regional tables. Note: grossed up income cannot be included for residual and the higher residual requirement for higher DTI.

- An acceptable ratio of total monthly debt payments to gross monthly income, even if this ratio exceeds acceptable levels.

With full entitlement, there is no cap on the amount the VA will guarantee at 25% of the loan amount.

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 $355,000 the median VA loan amount was the largest of all loan types in 2024 – see the chart below for a comparison of purchase loan amounts by loan type.

2024 MEDIAN HOME PURCHASE LOAN SIZE BY LOAN TYPE



Source: HMDAVision, 2024 HMDA Modified LAR Data, Home Purchase, 1-4 Units

Residual Income and VA Loans

Here, residual income comes into play. 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

Veterans with full entitlement to their VA Home Loan Benefit are not subject to loan limits, provided they have never previously used their benefit or have fully restored it after prior use. However, if the benefit has been used before and is not fully restored, the borrower may be subject to the standard conforming loan limits set by the Federal Housing Finance Agency (FHFA), which can impact maximum loan eligibility without a down payment.

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.

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.

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 (or 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 didn't fully repay the loan.

If a borrower has even $1 remaining of VA entitlement, they may be eligible to use their VA loan benefit.

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:

1. VA loans are denied at a higher rate. No, VA loans have the lowest denial rate among all products.
2. VA loans are expensive for Veterans. No, VA loans have the lowest origination fees, the lowest interest rate, and the lowest rate spread.
3. 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.
4. 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.
5. 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.
6. 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.
7. VA loans can only be used once. No, VA loans must abide by underwriting guidelines but subsequent and repeated use is allowed.

THE VA LOAN IS BOTH FINANCIALLY ATTRACTIVE AND PRACTICAL

The data and facts highlighted in this white paper emphasize the positive aspects of the VA loan program and the financial responsibility of most Veteran households.

GETTING 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.

Research Notes and References

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.

Special Thanks to our Partners at Polygon Research for Supporting our Vision in Providing VA Loan Education.

"The appearance of the U.S. Department of Defense (DoD) visual information does not imply or constitute DoD endorsement."

VA LOAN LENDERS AND FINAL COSTS

Finally, we come to the question about the role of the lender in making sure that the VA loan is the right fit for the borrower. VA loans are not all the same because each lender adds its own requirements (overlays) to the program. Up to this point, we have looked at the VA lending on average, nationally, using measures of central tendency and histograms.

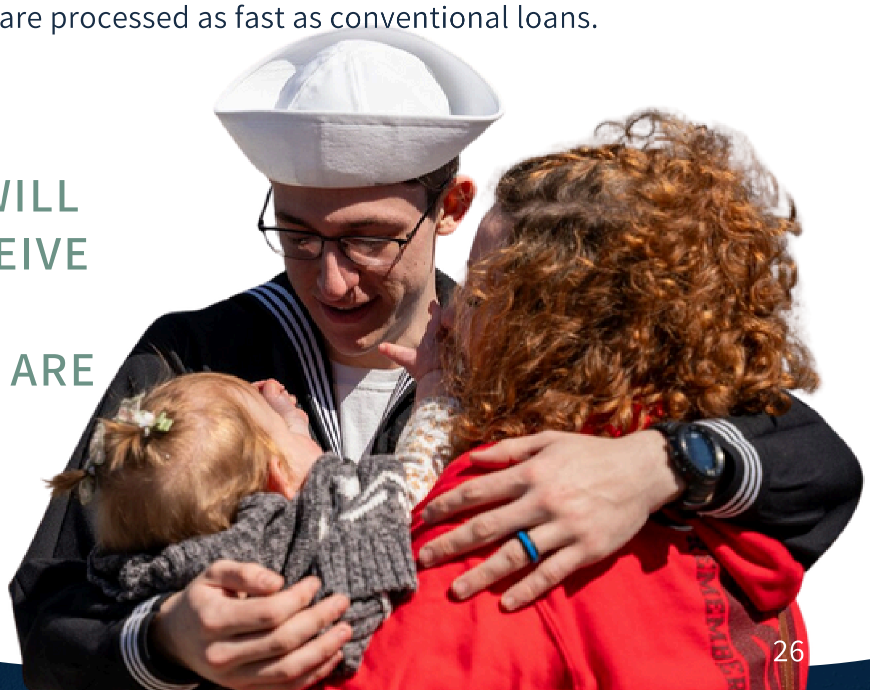
To examine it more closely, we zeroed in on one state - Colorado - and isolated different loan factors to get a better apples-to-apples comparison. We chose Colorado because among the top 20 states for VA purchase originations in 2024, Colorado had the lowest average loan costs for VA purchase loans (183 BPS), so we looked at all lenders in the state who took VA purchase loan applications in 2024. [7]

Even when controlling for CLTV (90% or greater), DTI (44% or greater), and credit score (720 or higher), we found a wide range in total loan costs among lenders, spanning from 0 to over 500 basis points within this narrow segment.

Depending on the lender, its strategy, its loan officer workforce, and many other intangibles, we saw a great range of closing costs for VA purchase loans by VA lenders – from 0 BPS to 543 BPS.
We then limited the geographic scope to one MSA (Metropolitan Statistical Area), Colorado Springs, CO (the top MSA by number of VA purchase loans), and still saw the same pattern of wide variability of pricing by VA lenders.
Next, we chose one DTI range, 36%-43%, and the pattern of a wide range of closing costs by VA Lender – from 0 BPS to more than 600 BPS – persisted
Finally, we further limited the analysis to the above DTI range of 36%-43% to a specific loan amount range, $275,000-$300,000, only to get a similar wide range of median closing costs by VA lenders – from 0 BPS to 600 BPS. The median interest rate spread in this segment varied from low -0.68 to high 1.39.
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. Educating and coaching individual loan officers will ensure that Veterans receive a good VA loan offer and that VA loan applications are processed as fast as conventional loans.

“EDUCATING AND COACHING INDIVIDUAL LOAN OFFICERS WILL ENSURE THAT VETERANS RECEIVE A GOOD VA LOAN OFFER AND THAT VA LOAN APPLICATIONS ARE PROCESSED AS FAST AS CONVENTIONAL LOANS.”





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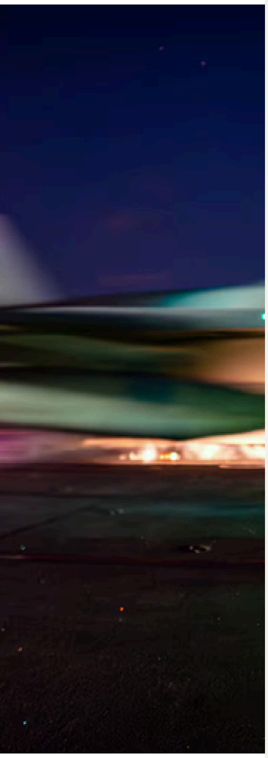

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