# VA HOME LOANS 101

PRESENTED BY: DANIEL LEHMAN, USMC Veteran NMLS #227076

### WELCOME

- What are some reasons that buying a home vs. renting is important?
  - Why spend the time to learn about home ownership?

### 4 FINANCIAL REASONS TO BUY

REASON

QUOTE - HARVARD REPORT

YOU'RE PAYING FOR HOUSING WHETHER YOU OWN OR RENT

OWNING IS USUALLY A FORM OF "FORCED SAVINGS"

THERE ARE TAX BENEFITS TO OWNING THAT DON'T APPLY WHEN RENTING

OWNING IS A HEDGE AGAINST INFLATION

"Having to make a household payment one way or the other, owning a home can overcome people's tendency to defer savings."

"Homeowners pay debt service to pay down their own principal while households that rent pay down the principal of a landlord."

"Homeowners are able to deduct mortgage interest and property taxes from income."

"Rents have tended over most periods to go up at or higher than the rate of inflation, making owning an attractive proposition."

# AN AMERICAN FAMILY'S NET WORTH

\$254,900

\$6,270

**HOMEOWNER** 

RENTER

FEDERAL RESERVE 2019

# THE COST OF -NOT- BUYING

Rank	Monthly BAH	Yearly BAH	3 Year Total
E 1-4	\$2,574	\$30,888	\$92,664
E-5	\$2,793	\$33,516	\$100,548
E-6	\$3,189	\$38,268	\$114,804
E-7	\$3,210	\$38,520	\$115,560
E-8	\$3,219	\$38,628	\$115,884
O-1	\$2,844	\$34,128	\$102,384
0-2	\$3,186	\$38,232	\$114,696
<i>O-3</i>	\$3,225	\$38,700	\$116,100
O-4	\$3,450	\$41,400	\$124,200

Calculated using 2021 BAH from defensetravel.dod.mil using Pendleton Zip with Dependents...

### ALL GOOD REASONS



# MY OPINION- PRIDE OF OWNERSHIP



### THE KEY INGREDIENTS?

Step 1 – Arm yourself with Information...

Step 2 – Develop a personalized Plan...

Step 3 – Execute the Plan...

### PRESENTER'S RESUME

### DANIEL P. LEHMAN

- United States Marine Corps
  - 1999 2004





### PRESENTER'S RESUME

### DANIEL P. LEHMAN

- The Lehman Group 2004 Present
- Author "The VA Home Loan Field Manual"





### PRESENTER'S RESUME

### DANIEL P. LEHMAN

### Volunteer/Instructor teaching the VA Home Loan Benefit









- HOME LOANS 101
  Understand the Basics
- THE VA HOME LOAN Program Specifics
- SAMPLE SCENERIO Applied Knowledge
- VA LOAN FAQ
  Unique Characteristics
- THE VA PURCHASE PROCESS
  Brief Overview

# HOME LOANS 101

# HOME LOANS 101 - BASICS

- THREE major characteristics:
  - CREDIT
  - INCOME
  - ASSETS

- TWO major lending concepts:
  - DEBT TO INCOME RATIO
  - LOAN TO VALUE RATIO

### HOME LOANS 101 - CREDIT

- Credit is the way that banks try to predict the future based on past performance
- Credit account history is reported to 3 "bureaus":
   Experian | Equifax | Transunion
- Information pulled by credit company, run through their algorithms and a score is produced

### HOME LOANS 101 - CREDIT

Lender will be looking at 2 things:

FICO Score

Numerical representation of past performance

Monthly Debt

To be used when calculating the "debt to income" ratio

- Income is the key factor in the AMOUNT you qualify for.
- Income must:
  - Have a History Industry History, not Job History...
  - Be Stable "Likely to Continue"...
  - Be Documented Existence AND Amount...

- Examples of income that CAN be used:
  - Base Pay/Spec Duty Pay/Hazard Pay
  - BAH/BAS\*
  - Retirement Pay
  - Salary Income
  - Full Time Hourly Income
  - Service-Connected Disability

- Variable income that CAN be used:
  - Inconsistent/Variable income must be averaged. General requirement is a 2-year history of receipt.
    - Part Time Income
    - Business Income
    - Overtime
    - Rental Income
    - Bonuses

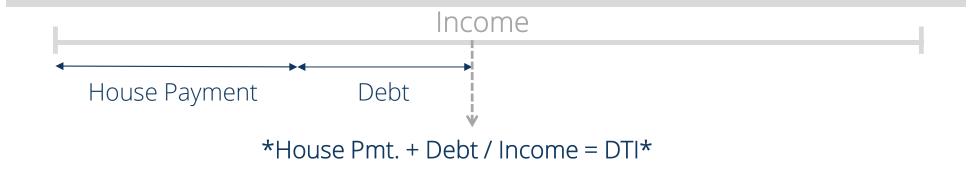
- Examples of income that CANNOT be used:
  - Cash Under the Table
  - Rents from same unit that you occupy
  - Business/OT/Bonus/Commissions without HISTORY
  - GI Bill and BAH from GI Bill (no continuance)
  - Military Income \*IF LESS THAN 1 YEAR UNTIL EAS\*

### HOME LOANS 101 - ASSETS

- Assets used for Down Payment, Closing Costs, and "Reserves"
  - Bank Accounts, IRA, TSP, 401K, Mutual Funds, etc...
  - Assets are not always necessary...
  - When required, 2 months of statements are typically requested...

### HOME LOANS 101 - "DEBT TO INCOME"

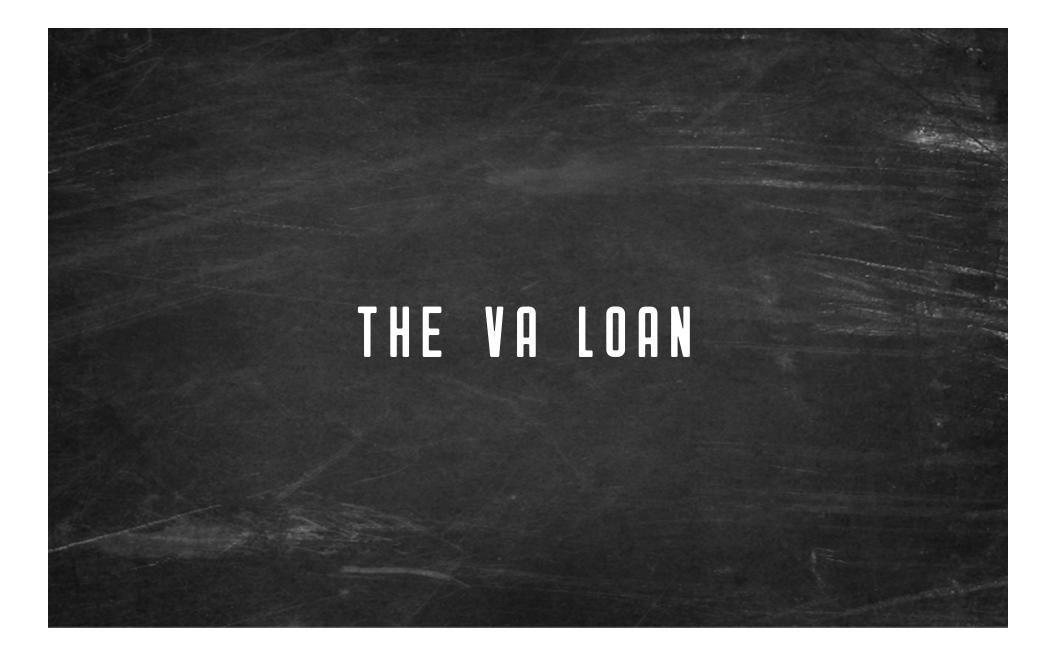
- The term "Debt to Income" refers to the relationship between your gross monthly income and your monthly obligations.
  - Key factor in determining how much you can borrow.



### HOME LOANS 101 - "LOAN TO VALUE"

- Loan to Value represents the amount of money OWED on a home in relation to the home's value
  - The lower the Loan to Value, the lower the banks risk





### THE VA LOAN

- The VA Home Loan is not provided directly by the VA
  - Traditional banks and lenders supply the loans.
- The VA guarantees them on behalf of "Eligible Veterans".
- Prior to 2020, this was up to the "County Loan Limit" where the property is located.

### VA LOAN ELIGIBILITY

- 1 90 Days Active Duty during Wartime
- 2 181 Days Active Duty During Peacetime
- 3 6 Years Reserve Service (or activation under above circumstances)
- Service member's spouse if service member dies in service, dies as result of service-connected disability, or is considered MIA/POW

### WHO CAN USE THE VA LOAN?

- Veteran (Active Counts)
  - Veteran and Spouse
- Veteran and another Eligible Veteran (dual eligibility)
  - Veteran and Non-Veteran\* (joint loan)
    - Widowed Spouse\*\*

### THE VA LOAN-LOAN LIMITS

PRIOR to 2020 – VA limited 100% financing to Loan Limits which mirrored conforming loan limits...

- 2021 San Diego Loan Limit \$753,250
- 2021 Orange County Loan Limit \$822,375
- 2021 Riverside County Loan Limit \$548,250\*

### THE VA LOAN-LOAN LIMITS

AFTER Jan 1, 2020 –

H.R. 299 – Blue Water Navy Vietnam Veterans Act IF YOU HAVE FULL ELIGIBILITY - NO VA LOAN LIMIT (still must qualify for payment, etc...)

# THE VA LOAN VS. OTHER OPTIONS

"Even if I am eligible for VA, is that the best option?"

# THE VALOAN VS. OTHER OPTIONS

### GENERALLY SPEAKING:

VA > Conventional > FHA > Renting

# THE VALOAN VS. OTHER OPTIONS

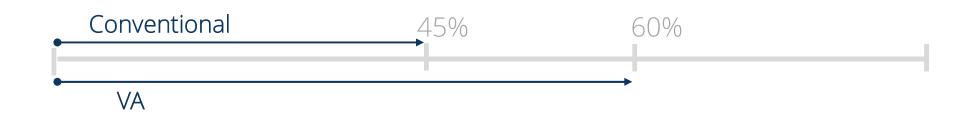
GENERALLY SPEAKING:

VA > Conventional > FHA > Renting

- Interest Rates -
  - The VA loan typically runs .25% to .50% cheaper in rate than the best conventional loan at similar terms.

- Credit -
  - VA clients are less negatively impacted by credit imperfections than conventional clients.

- Income -
  - The VA loan allows for up to 60% Debt to Income.
  - Conventional Loans typically max out at 45%.
    - This allows for more flexibility, even if not utilized



- Assets / Down Payment / Loan To Value (Assets)
  - Conventional loans allow for as little as 3% down.
     But -
  - Less than 20% down requires Mortgage Insurance (PMI) to offset banks risk.



### VA LOAN VS. CONVENTIONAL

- Mortgage Insurance
  - Because the VA guarantees up to 25% of the loan, no down payment or mortgage insurance is required.



100% LTV (NO DOWN PAYMENT REQUIRED)

### VA LOAN VS. CONVENTIONAL

- Summary
  - Less Restrictive Credit Requirements
  - Lower Interest Rates
  - No Down Payment (up to loan limits)
  - No Monthly Mortgage Insurance Expense
  - More Flexible Debt to Income Limits
- Conclusion In <u>most cases</u>, if an individual qualifies and is eligible for VA, it is the best loan available.

# SAMPLE PRE-APPROVAL

### PRE-APPROVAL EXAMPLE

To drive home the concepts learned today, here is a stepby-step sample scenario using a Marine Corps Sergeant who is interested in purchasing a home using the VA loan.

### EXAMPLE DATA

- Active Duty Marine "with dependents"
  - 6 years time in service
    - Sergeant (E5)
  - \$350/mo. car payment
- \$100/mo. in minimum credit card payments

### EXAMPLE INCOME

- Income:
  - 6 Year Marine Sergeant, per DFAS
    - 3,187 /month
  - BAH with dependents
    - 2,793 /month
  - BAS
    - 387 /month

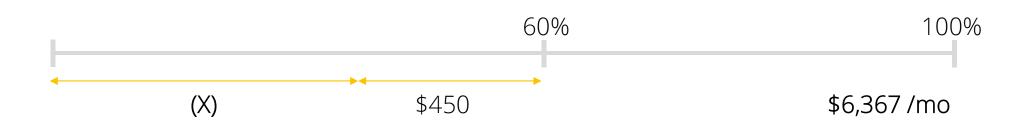
TOTAL INCOME: \$6,367/mo.

### EXAMPLE - DEBT TO INCOME RATIO

• Total Income: \$6,367

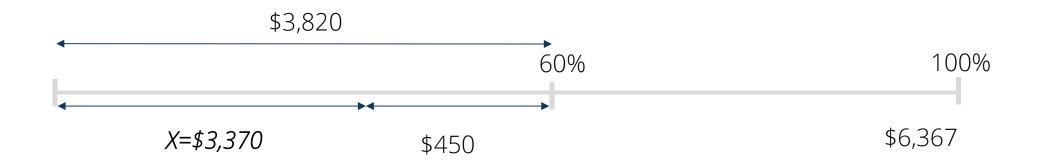
Total Debt: \$450 dollars per month

 Prospective home payment (X) plus 450 in debt has to be less than 60% of the total monthly gross income...



SOLVING FOR X WILL SOLVE FOR THE MAXIMUM PAYMENT THIS MARINE WOULD QUALFIY FOR.

### EXAMPLE - DEBT TO INCOME RATIO



This family would qualify for a MAXIMUM monthly payment of \$3,370 dollars.

(\$6,367 income x .6) - 450 debt = \$3,370 max)

### PROSPECTIVE MAX PURCHASE PRICE

 Depending on interest rates, this family would qualify for a home purchase in the amount of approximately:

\$550,000 dollars

- This includes:
  - PRINCIPAL/INTEREST \$2,608/month
  - TAXES \$522/month
  - INSURANCE \$130/month
  - HOA \$110/month

TOTAL: \$3,370 /month "PITI"

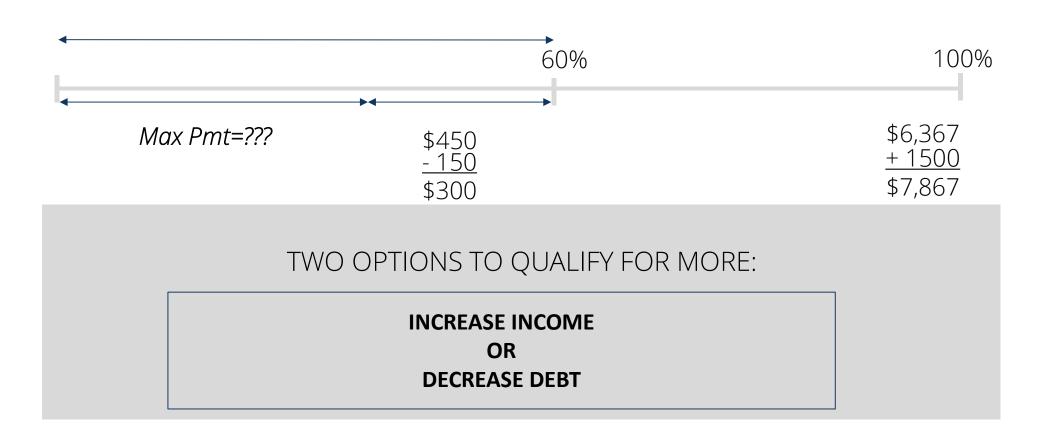
### SCENARIO:

What if they go out looking at property, and find their DREAM HOME - but it is listed at 575K?

What options do we have?

Hint: It has to do with what you've learned about DTI...

### EXAMPLE - DEBT TO INCOME RATIO



### SCENARIO:

What if you know how much HOME you want to buy, but are trying to figure out how much INCOME you need to qualify?

How can we use the same information to solve?

### EXAMPLE - DEBT TO INCOME RATIO



DTI CAN BE USED TO SOLVE MULTIPLE QUESTIONS...

Prospective House Payment + Debt from Credit Report

Divided by 60% = Income Needed to Qualify

# TRUE OR FALSE?

"VA loans are only for first-time buyers only..."

FALSE!

The only restriction is that the VA loan must be used to purchase a *primary residence*...

"I can have two VA loans at once..."

TRUE!

If VA entitlement remains, you can use it if the new property is a primary residence...

"I can buy a fourplex using the VA Home Loan..."

### TRUE!

1-4 Units is considered "residential". If one of the units is occupied, the property is considered owner occupied, and eligible.

"My non-veteran spouses' income can be used to qualify for the home that we want to buy"

### TRUE!

A spouse's income can be used if it is stable and from an acceptable source – just like any other loan...

"There are certain circumstances where VA may not be the best loan option..."

### TRUE!

When planning any job, you want to first figure out the GOAL and apply the right TOOLS...

### A COUPLE EXAMPLES:

- If you are buying a small, temporary home and plan on buying a more expensive home later...
- If you are planning on putting 20% down ANYWAYS, and are required to pay a VA Funding Fee...

In all cases, EDUCATION and PLANNING is key!

### THE VA FUNDING FEE:

### Purchase and Construction Loan

Note: Reduced fees only apply to purchase loans with a down payment of at least 5 percent.

Type of Military Service	Down payment	Percentage for <u>First-time</u> Use	Percentage for Subsequent Use
Active Duty**,	None	2.3%	3.6% *
Reserves, &	5% or more	1.65%	1.65%
National Guard	10% or more	1.4%	1.4%

- Only closing cost that can be "rolled into" the Loan Amount.
- Service-Connected Disability Rating WAIVES funding fee (forever).

"VA Loans do not require any down payment, so I will not need any cash at all to purchase a home..."

### MAYBE

Closing costs ALWAYS exist. The question is – Who pays them and HOW?

### CLOSING COSTS

- There are two separate categories of Closing Costs
  - TRUE non-recurring closing costs
  - PRE-PAID expenses
- There are THREE ways to pay Closing Costs
  - YOU can pay them out of your assets...
  - THE LENDER can pay them through "rebate"...
  - THE SELLER can pay them as part of negotiation...

## THE PURCHASE PROCESS

### THE HOME BUYING PROCESS



### QUESTION

Should you start your process by finding the home or by getting pre-approved for a home loan?



Who pays the buyers realtor?

### THE HOME BUYING PROCESS



### QUESTION

What is the role of an escrow company? (some states use closing attorneys)

### QUESTION

What is the difference between a "home inspection" and an "appraisal inspection"?

### THE HOME BUYING PROCESS



### THE HOME BUYING PROCESS

## Once the loan records at the County...





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### NEXT STEPS

Step 1 – Arm yourself with Information...

Step 2 – Develop a personalized Plan...

Step 3 – Execute the Plan...

## FINAL QUESTIONS?

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