



# FIRST-TIME HOMEBUYER GUIDE

Support moving military families  
Support veteran and military spouse businesses  
Support military-focused charities





## **WHAT IS VETERANPCS?**

VeteranPCS makes it easy to find a veteran and military spouse real estate agent and VA Loan expert you can trust, nationwide, for free.

Plus, you get a Bonus of \$200-\$4,000 at closing to help with your closing costs.

And, we donate a portion of each closing to military-focused charities.

**THIS IS MILITARY FAMILIES HELPING  
MILITARY FAMILIES MOVE**



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# INTRODUCTION

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## HOW DOES EQUITY WORK IN THE HOME YOU OWN?

### Definition:

Home equity is the portion of your property that you truly "own." It's the difference between the market value of your home and the amount you still owe on your mortgage.

### How Equity Builds Up

- **Through Mortgage Payments:**

As you make mortgage payments, you reduce the amount you owe on the home loan, which increases your equity. In the early years of a mortgage, payments are primarily interest. Over time, more of your payment goes toward the principal balance, building equity faster.

- **Through Property Value Increases:**

When the market value of your home increases, your equity increases. This can happen due to market changes, home improvements, or renovations.

### Calculating Home Equity

Equation: Home Equity = Current Market Value of Home - Remaining Mortgage Balance.

For example, if your home is worth \$300,000 and you owe \$200,000 on your mortgage, your home equity is \$100,000.

### Leveraging Home Equity

- **Home Equity Loans or Lines of Credit:**

You can borrow against your home equity through a home equity loan or a home equity line of credit (HELOC). These can be used for home improvements, debt consolidation, or other major expenses.



# INTRODUCTION

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## HOW DOES EQUITY WORK IN THE HOME YOU OWN? (CONTINUED)

- **Refinancing:**

If your home's value has increased or the market interest rate is lower than your mortgage interest rate, you might be able to refinance your mortgage to adjust your monthly payment amount. Learn more about refinancing by speaking with one of our VeteranPCS [VA Loan Experts](#).

- **Selling Your Home:**

When you sell your home, the equity you've built up, minus closing costs, are the profits you realize after the sale.

### Importance of Equity

- **Financial Asset:**

Home equity is a significant part of your overall net worth.

- **Borrowing Power:**

The more equity you have, the more options you might have for borrowing or refinancing.

- **Flexibility in Selling:**

Having substantial equity can give you more flexibility when you decide to sell your home, potentially allowing for a larger down payment on your next home.

### Risks and Considerations

- **Market Risk:**

If your property value declines, so does your home equity, often called negative equity. If you sell your home and the market has declined or you haven't built enough equity to cover all of the closing costs you may owe money at closing, rather than making money on the sale of your home.

- **Over-borrowing:**

Borrowing too much against your home equity can put your home at risk if you're unable to make the payments.

- **Equity Doesn't Translate to Cash:**

Equity represents value that's tied up in your home. To access it you can: sell the home, refinance your mortgage, or borrow against the equity.



# INTRODUCTION

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## MONTHLY HOUSING BUDGET AND TAX-FREE BAH

It's important to consider the fact that your Basic Allowance for Housing (BAH) is tax free. You either put that tax free money toward someone else's asset (paying rent), or you can invest it into your own asset (your home).

Many homebuyers desire to match their monthly mortgage payment as close to their BAH as possible. Or, as a Veteran, you may want to match your monthly mortgage payment to what you allocate as your own housing budget. To do this requires some analysis and planning with a Mortgage Loan Originator (what VeteranPCS calls a [VA Loan Expert](#)). You'll need to discuss the following:

- Home purchase price
- Down payment amount (which can be as little as \$0 using your VA loan benefit)
- Interest rate
- Taxes
- Homeowners insurance
- HOA dues (if applicable)

It's important to note that this does not account for any utility costs. You'll want to ask one of our [real estate agents](#) or do your own research on what to expect for utility costs.

# Section One

## Home Buying Road Map

- [Home Buying Road Map](#)
- [Importance of working with a real estate agent](#)
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- [What Should You Avoid Doing When Getting Ready to Buy a Home?](#)



# HOME BUYING ROAD MAP

## Section One

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### IMPORTANCE OF WORKING WITH A REAL ESTATE AGENT

Real estate agents, or brokers, are licensed professionals with in depth knowledge and expertise in helping clients purchase or sell a home. Purchasing a home is, typically, the largest single purchase that individuals ever make. Consider a real estate agent like you would a financial advisor. You don't need a financial advisor to invest your money, and you don't need a real estate agent to buy or sell a home, however, having professional guidance in these areas helps to ensure the decision you make is wise and maximizes your investment for long term gains. Similarly, there are highly skilled real estate agents and financial advisors, and there are bad ones. Let's discuss how to choose a professional to represent you.

#### Benefits of working with a skilled real estate agent

- Market insights on overall housing price trends
- Analysis of appreciation trends by neighborhood or location
- Understanding real estate legal contracts and nuances
- Assistance in finding opportunities in the real estate market place
- Assessing risks and benefits when viewing homes
- Detailed analysis of property history
- Insights into property improvement records like building permits
- Understanding property tax differences and special taxing districts
- Upcoming changes or improvements that could affect the home's value and appreciation
- Insights into HOA declarations, covenants, and fees
- Comparative market analysis of listed home price to previously sold homes in the area
- Guidance on inclusions, exclusions, fixtures, and encumbrances

# HOME BUYING ROAD MAP

## Section One

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### IMPORTANCE OF WORKING WITH A REAL ESTATE AGENT (CONTINUED)

- Negotiating purchase price and concessions
- Structuring and refinement of dates and deadlines within real estate contracts
- Understanding termination rights and where your risks are
- Guidance when reviewing property disclosures
- Representing your interests and desires to closing settlement providers like title companies and closing attorneys
- Professional guidance with understanding title, deed records, easements, and encumbrances
- Guidance with home inspections and negotiations
- Recommendations and corrective action following ancillary inspections such as radon, mold, pest, structural, and sewer line inspections
- Utility information regarding water, wells, septic, sewer, trash, electrical, and internet
- Property zoning information and restrictions
- Explanation of rights or lack of rights with water rights and mineral rights
- Understanding or obtaining land surveys or Improvement Location Certificates
- Coordinating closing details with settlement provider
- Final walkthroughs and inspection of any conditional closing items
- Review of closing costs listed in final settlement sheet or closing disclosure
- Representation at final closing and transfer of possession

# HOME BUYING ROAD MAP

## Section One

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### IMPORTANCE OF WORKING WITH A REAL ESTATE AGENT (CONTINUED)

#### Understanding the Types of Agents

There are typically two different real estate agents associated with the purchase or sale of a home. One to represent the Seller's interests, and one to represent the Buyer's interests. Licensed real estate agents or brokers can represent either type of client, it is not a separate license.

- **Buyer's Agents:**

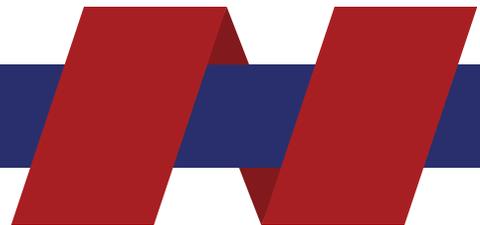
Specialize in helping buyers find and purchase a home. They represent the buyer's interests in the transaction.

- **Seller's Agents (or Listing Agents):**

Focus on assisting sellers with listing and selling their homes. They represent the seller's interests.

- **Builders Representatives:**

If you're building or buying a newly built home you'll likely work with a representative from the home builder. These are often licensed real estate agents who work for the builder. Their loyalty and representation is ultimately for the builder (like a seller's agent) so it's very important to have your own Buyer's Agent representation during this process. Make sure to voice your desire for representation early, and prior to signing any initial contracts. And, many times, the builder is the one that pays for the Buyer's Agent commission, not you.



# HOME BUYING ROAD MAP

## Section One

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### IMPORTANCE OF WORKING WITH A REAL ESTATE AGENT (CONTINUED)

#### **Check Experience and Specialization:**

Specialization is very important when choosing an agent to represent you. Consider agents who specialize in the type of property you're interested in and the specific area where you're looking to buy or sell. You'll also want to ensure the agent has expertise with your specific situation. If you are serving or have served in the military, working with a fellow Veteran or Military Spouse real estate agent adds another layer of relatability and understanding to ensure you're being represented to the fullest. Connect with a Veteran or Military Spouse real estate agents in your area here [VeteranPCS.com](https://www.veteranpcs.com)

- **Interview Multiple Agents:**

Interview several agents to assess their experience, knowledge of the local market, communication style, and whether they understand your specific needs.

- **Understand the Agent's Approach:**

Discuss their approach to finding or marketing a property, their negotiation strategies, and how they handle potential challenges.

- **Communication and Availability:**

Ensure the agent's availability aligns with your schedule and that their communication style and frequency meet your expectations.

- **Review and Understand the Contract:**

Before signing an agreement with an agent, thoroughly review the terms, including the agent's commission, duration of the agreement, and any other obligations.

#### **Additional Considerations**

**Local Expertise:** An agent with local expertise can provide valuable insights about communities, appreciation of property values, risks, and market trends.

**Compatibility:** It's important that you feel comfortable with the agent, as you will be working closely with them throughout the process.

**References and Past Success:** Ask for references and examples of past sales or purchases, particularly in your target area or property type.

# HOME BUYING ROAD MAP

## Section One

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### BUDGETING FOR A HOME

Budgeting for homeownership can be tough. At times, owning a home can, initially, be more expensive, but can lead to significant gains in home equity over time. You also have the opportunity to refinance your mortgage to lower your monthly payment in the future, whereas renting a home your rent may go up year after year.

- **Assess Your Budget:**

Determine how much you can afford, considering your income, savings, and current debt obligations. If your budget is based on your BAH you can use this to back-plan.

- **Debt-to-Income Ratio (DTI)**

DTI is a term you may hear during your pre-approval process. Many financial advisors would recommend for you to stay around 30% of your total gross income for your personal residence. If you make \$6,000 per month before taxes, a 30% DTI would be \$1,800 per month for your total mortgage payment. Your total mortgage payment would include "PITI" or Principal, Interest, Taxes, and Insurance. [VA Loan Experts](#) that you see on [VeteranPCS.com](#) may be able to approve you up to, or even above, a 50% DTI, depending on your situation. Ultimately, it all comes down to what you're comfortable with and your personal projections for your future in that home.

- **Planning for Savings**

Owning a home will undoubtedly come with expenses in the future. You may have an appliance that needs replacing, plumbing work needed, furnace or HVAC servicing; the list goes on. As a good minimum planning figure, it is recommended to have at least 3 months of your total living expenses in a savings account for homeownership expenses.



### PLANNING FOR CLOSING COSTS

Planning for closing costs is a vital part of the home buying or selling process. Here's a guide to help military and veteran clients, as well as other individuals, navigate these expenses effectively:

#### For Buyers:

- **Understand What Closing Costs Are:**

Closing costs are fees and expenses you pay when you close on your house, separate from the down payment. They can include appraisal fees, title searches, title insurance, surveys, taxes, deed-recording fees, loan origination fees, and credit report charges.

- **Estimate the Costs:**

Generally, closing costs can range from 1% to 5% of the home's purchase price. For a \$200,000 home, that's \$2,000 to \$10,000.

For military and veteran buyers using the VA loan, certain fees are limited or not allowed.

- **Ask for a Loan Estimate:**

After you apply for a mortgage, your lender will provide you a Loan Estimate within three days. This document will detail the terms of your loan, including estimated closing costs.

- **Budget for These Costs:**

Start saving early for closing costs in addition to your down payment (if applicable).

- **Negotiate with the Seller:**

You may be able to negotiate with the seller to cover some or all of the closing costs through "Seller Concessions". A [VeteranPCS Real Estate Agent](#) will be able to navigate this and negotiate on your behalf.

- **Veterans Affairs (VA) Loans:**

VA loans are government-backed loans offering some unique benefits. The VA limits certain closing costs, prohibits others, and requires no down payment.

The VA Loan funding fee helps to fund the overall VA loan program and is, most commonly, rolled into the loan amount at closing. VA Funding fees are waived for buyers with VA disability ratings of 10% or more, or active duty service members with a purple heart. This is no small fee at 2.15% for first-time use, and even higher at 3.3% for subsequent home purchases. This fee can also be reduced to 1.5% if you put 5% down, or 1.25% when putting 10% or more down. For example, if you purchase a \$300,000 home and it's your first time using the VA loan, your funding fee would be \$6,450. If you put \$15,000 down (5%), your funding fee would be reduced to \$4,500. With \$30,000 down (10%) it reduces your VA funding fee to \$3,750.

# HOME BUYING ROAD MAP

## Section One

### PLANNING FOR CLOSING COSTS (CONTINUED)

If you do pay a VA funding fee you can either pay it through closing or (most commonly) roll that fee into the overall loan. If you roll the VA funding fee into the loan amount its important to consider the implications this will have if you plan to sell within a few years as your loan amount may be higher than your purchase price if you purchased with no money down.

#### For Sellers:

- **Understand Seller's Closing Costs:**

In some cases, sellers pay the real estate agent commissions for both agents and other fees like title transfers and prorated property taxes.

- **Estimate Your Costs:**

Seller's closing costs can range from 6% to 10% of the sale price. This sometimes includes one or both sides of the real estate commission, which averages around 5% to 6%.

- **Consider Other Possible Expenses:**

Home repairs, if agreed upon after the home inspection.

Possible concessions to the buyer, like paying for part of their closing costs.

- **Factor in Mortgage Payoff:**

Remember to factor in the remaining balance of your mortgage, which will be paid off from the sale proceeds.

- **Get a Net Sheet:**

Ask your real estate agent for a net sheet, an informal document that gives you a rough estimate of what you'll make from the sale after all costs are deducted.

- **Additional Tips for Both Buyers and Sellers**

**Shop Around for Services:** You can shop around and compare prices for certain services like home inspections and title searches.

**Read the Closing Disclosure Carefully:** For buyers, you'll receive a Closing Disclosure at least three business days before closing, which lists the final terms and closing costs.

**Military and Veteran Benefits:** If you're a military member or veteran, check if you're eligible for any additional benefits or discounts on closing costs.

By planning ahead and understanding these costs, buyers and sellers can manage their finances more effectively during the real estate transaction process.

# HOME BUYING ROAD MAP

## Section One

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### FINDING A HOME TO BUY

Below is a comprehensive guide for searching for a home to buy, particularly useful for military and veteran families but applicable to all potential homebuyers:

#### Understanding Your Needs and Preferences

- **Identify Your Needs vs. Wants:**

List out what you need in a home (like the number of bedrooms, bathrooms, and essential features) versus what you want (such as a large kitchen, swimming pool, etc.). If you are purchasing the home with a spouse then it can be useful to each make lists and then compare.

- **Choose the Right Location:**

Consider factors like commute times, school districts, neighborhood safety, local amenities, and proximity to military bases if applicable. Working with a [VeteranPCS Real Estate Agent](#) that has local knowledge of the city or local bases can help with this process.

It is important to know that real estate agents have limitations on the advice they give. By law, they are prohibited from “steering” clients towards or away from certain neighborhoods, cannot give recommendations on school districts, and cannot give advice on crime statistics. You can ask a real estate agent for recommendations on links or websites so you can do that research yourself. Once you’ve done that research on your own you can advise your real estate agent of geographical boundaries, zip codes, or even school districts that you are interested in.

#### Financing

- **Get Pre-Approved for a Mortgage with a [VeteranPCS VA Loan Expert](#):**

This will give you a clear idea of what you can afford and shows sellers that you’re serious and ready to buy. We’ll get more in-depth on pre-approval, VA Loan, and other mortgage types later in the guide.

# HOME BUYING ROAD MAP

## Section One

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### FINDING A HOME TO BUY (CONTINUED)

#### The Home Search

- **Work with a VeteranPCS Real Estate Agent:**

A good agent can help you find homes that meet your criteria, provide valuable local market insights, and guide you through the buying process.

- **Consider Future Resale Value:**

Think about how easy or difficult it might be to sell the home in the future.

#### Visiting Homes

- **Schedule Showings:**

Visit multiple homes with your chosen agent to get a feel for what's available in your price range and what different neighborhoods are like.

- **Take Notes and Photos:**

Keep track of what you like and don't like about each home. The more homes you see the more you start to refine your needs vs. wants. It is not uncommon to see 10, 20, or even 30 homes before you make an offer.

- **"The Perfect Home"**

It is oftentimes a challenge to find "the perfect home" during your search. There are no perfect homes out there. It's important to not get emotionally attached to any single home prior to closing. Consider both your emotional draw towards a home, while also staying logical about the numbers and the fact that every home will have maintenance needs.

#### Making an Offer

- **Understand the Market:**

Your real estate agent can provide information about whether it's a buyer's or seller's market, which can affect how you make your offer.

# HOME BUYING ROAD MAP

## Section One

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### FINDING A HOME TO BUY (CONTINUED)

- **Consider Contingencies:**

Discuss contingencies, negotiations, and termination rights with your real estate agent. Each state has unique real estate contracts that allow time for inspections, appraisals, survey matters, financing contingencies, and more.

- **Seller Concessions**

Discuss the availability of seller concessions. Depending on the market, the seller, and the home, there may be an opportunity to gain seller concessions to cover part, or all, of your closing costs. There are limitations to seller concessions so it's important to discuss these with your mortgage lender as well.

- **Negotiate:**

Negotiations are common, and they often happen during the time of making an offer, as well as through your contract period around contract contingencies. A skilled real estate agent will be your main advisor on negotiations. They will educate you on your options, risks, and then advocate on your behalf through multiple periods of negotiations.

#### **After Your Offer is Accepted**

Once you have an offer accepted you will be considered “under contract” or “in escrow”. This simply means that home is now off the market and you've entered into the next phase of preparing to close on that home. Continue reading for more information on these next steps.

#### **Special Considerations for Military and Veteran Families**

**Flexibility for Relocation:** If there's a possibility of relocation due to military orders, consider the potential for renting out the home or the ease of selling it in the future.

**Utilize Military Resources:** There may be additional resources and support systems available for military families during the home-buying process. Some states have state-sponsored programs that could also benefit you as a home buyer.

Remember, buying a home is a significant decision and investment, so take your time to research, explore, and make informed choices.

# HOME BUYING ROAD MAP

## Section One

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### HOW DO REAL ESTATE CONTRACTS WORK AND HOW DO YOU NEGOTIATE THE BEST TERMS?

Understanding how real estate contracts work and negotiating for the best terms are key aspects of any real estate transaction. Here's a basic overview suitable for both military and civilian clients:

#### Understanding Real Estate Contracts

- ***The Basics of a Real Estate Contract:***

A real estate contract is a legally binding agreement between the buyer and seller of a property.

The contract outlines the terms and conditions of the sale, including price, closing date, contingencies, and any items included or excluded in the sale (like appliances).

- ***Key Components:***

**Offer and Acceptance:** The buyer's offer includes the proposed purchase price and terms. The seller can accept, reject, or make a counteroffer.

**Consideration:** This is something of value (usually called earnest money) exchanged between the buyer and seller and held by an escrow agent.

**Legal Capacity:** Parties must be legally capable of entering into a contract.

**Mutual Assent:** Both parties agree to the terms.

**Legal Purpose:** The sale must be for a legal purpose.

- ***Contingencies:***

Contingencies are conditions that must be met for the contract to be binding. Common contingencies include home inspections, financing, and the sale of a current home.

#### Negotiating for the Best Terms

- ***Understand the Market***

Know whether it's a buyer's or seller's market, as well as the days-on-market for that particular home as this may affect negotiating power.

- ***Comparable Sales:***

One of the key components and benefits when working with a [VeteranPCS Real Estate Agent](#) is seeing comparable sales in the area to understand the property's value. This can be referred to as Comparative Market Analysis (CMA) and will provide key data insights on the property prior to making an offer.

# HOME BUYING ROAD MAP

## Section One

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### HOW DO REAL ESTATE CONTRACTS WORK AND HOW DO YOU NEGOTIATE THE BEST TERMS? (CONTINUED)

- **Consider All Aspects of the Offer:**

Negotiations aren't just about price. Consider closing dates, seller concessions, contingencies, and items included in the sale.

- **Communicate Through Your Agent:**

Your real estate agent will be your negotiator, advisor, and advocate. They understand the market and have experience with the negotiation process and explaining legal contracts.

- **Be Prepared to Compromise:**

It's important to know that both parties, the buyer and seller, want to make it to closing. For this to happen, both parties may need to make concessions to reach an agreement.

- **Respond Quickly:**

Timely responses to offers and counteroffers keep the process moving forward.

- **Keep Emotions in Check:**

Stay focused on your end goal and don't let emotions overrule your decisions. It can be helpful to communicate consistently with your agent and lender to sift through emotions and facts to remain grounded through the process.

#### **Additional Tips for Military and Veteran Buyers:**

**VA Loan Advantages or disadvantages:** If you're using your VA Loan benefit, this may be an advantage or disadvantage. VA Loans are amongst the strongest performing loans in the country, however, many sellers may be misinformed on the VA loan.

Working with a [VeteranPCS Real Estate Agent](#) that has in depth experience with the VA loan can be critical to getting your offer accepted.

**Relocation Considerations:** If you're likely to relocate, negotiate terms that will make the home easier to sell or rent out in the future.

# HOME BUYING ROAD MAP

## Section One

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### HOW DO REAL ESTATE CONTRACTS WORK AND HOW DO YOU NEGOTIATE THE BEST TERMS? (CONTINUED)

#### Finalizing the Deal

Once the terms are agreed upon, both parties will sign the legal contract.

The buyer typically provides earnest money to solidify their intent to purchase.

The contract becomes binding once signatures are complete and the contract is ratified.

#### Closing

The final step in the process is the closing, where ownership of the property is officially transferred from the seller to the buyer.

Real estate contracts and negotiations can be complex, so it's important to work with a knowledgeable real estate agent and possibly a real estate attorney to ensure your interests are well-represented and protected.



# HOME BUYING ROAD MAP

## Section One

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### WHAT IS EARNEST MONEY AND HOW IS IT USED?

#### **Definition:**

Earnest money is a deposit made by a homebuyer to show they are serious (or "earnest") about purchasing a property. It's a sign of good faith when an offer to purchase is made.

- **Amount:**

The amount varies, but it's typically 1% to 3% of the purchase price of the home. In highly competitive markets or for more expensive properties, the percentage can be higher.

- **Purpose and Usage:**

Earnest money reassures the seller of the buyer's intent to complete the purchase.

- **Negotiation:**

The amount can be a point of negotiation. A larger earnest money deposit might make an offer more attractive to a seller.

- **Held in Escrow:**

The deposit is held in an escrow account by a third party, like a real estate brokerage, title company, or attorney, until the deal closes.

- **Towards Purchase:**

If the sale goes through, earnest money is typically applied towards the buyer's down payment or closing costs.

- **Refund Conditions:**

If the deal falls through due to contingencies outlined in the contract (like a failed home inspection or inability to secure financing), the earnest money is usually refunded to the buyer.

- **Forfeiture Risk:**

If the buyer backs out of the deal without a contingency-based reason, the seller may be entitled to keep the earnest money as compensation for the lost time and potential other offers.

#### **Special Considerations for Military and Veteran Buyers:**

**VA Loans and Earnest Money:** Buyers using VA loans still need to provide earnest money, but like all buyers, they should understand the contract contingencies to protect this deposit.

**Relocation Flexibility:** Military buyers should be aware of their potential for relocation when considering how much earnest money to put down and understanding the contingencies that allow for its return.

# HOME BUYING ROAD MAP

## Section One

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### WHAT ARE HOME INSPECTIONS, HOW DO THEY WORK, AND HOW CAN THEY BE USED IN THE HOME BUYING PROCESS?

#### Definition:

A home inspection is an objective visual examination of the physical structure and systems of a house, from the roof to the foundation.

- **Purpose:**

The main purpose is to identify any existing or potential problems with the property that could affect the buyer's decision to purchase or the price they're willing to pay.

#### How Home Inspections Work:

- **Hiring an Inspector:**

After an offer is made and accepted, the buyer hires a professional home inspector to conduct a thorough inspection of the property.

- **Scope of the Inspection:**

Inspectors check the condition of various aspects of the home, including the roof, foundation, HVAC systems, plumbing, electrical systems, walls, windows, ceilings, floors, attic, and basements.

They also look for signs of water damage, pest infestations, mold, and other issues that can affect the home's value and safety.

- **Duration:**

A typical inspection takes a few hours, depending on the size and condition of the home.

- **Inspection Report:**

After the inspection, the inspector provides a report detailing their findings, including any defects or issues discovered.

#### Types of Home Inspections

Types of home inspections you should consider vary based on the type of home and geographical location. Some common home inspections to consider beyond your standard inspection include: Sewer Line, Radon Gas, Mold, Pest, and Foundational inspection. Ask your [VeteranPCS Real Estate Agent](#) for advice on which inspections to consider.

# HOME BUYING ROAD MAP

## Section One

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### WHAT ARE HOME INSPECTIONS, HOW DO THEY WORK, AND HOW CAN THEY BE USED IN THE HOME BUYING PROCESS? (CONTINUED)

#### Utilization in the Home Buying Process

- ***Informed Decision Making:***

The inspection gives buyers a deeper understanding of the property they are considering. It can reveal issues that are not obvious from a simple walkthrough.

- ***Negotiation Tool:***

If significant issues are found, buyers can negotiate with the seller to have them repaired before the sale is completed, negotiate seller concessions in lieu of repairs, or negotiate a lower sale price to account for the cost of repairs.

- ***Termination Rights:***

If major problems are discovered and the buyer isn't willing to deal with them, most purchase contracts include a *home inspection contingency* that allows the buyer to terminate the contract to purchase the home and retain their earnest money. Be sure to ask your [VeteranPCS Real Estate Agent](#) about this in your contract.

- ***Future Maintenance Planning:***

The inspection can also inform the buyer about future maintenance needs and expenses.

#### Special Considerations for Military and Veteran Buyers

- ***Understanding VA Loan Requirements:***

For those using VA loans, understanding the specific requirements for a VA appraisal and how it differs from a home inspection is important. There is no such thing as a "VA Inspection" but there are VA-approved appraisers. Home inspectors will assess the entire property for the buyer, whereas an appraiser will determine the value of the property and can also set contingencies on closing for any health or safety items. A home inspector will not set contingencies on the sale of the home, only the appraiser will do that.

- ***Future Relocation or Sale:***

Military families facing potential relocation should consider how the findings of a home inspection might impact the resale value or rental potential of the property. It is important to keep your inspections saved for reference when you sell your home in the future.

# HOME BUYING ROAD MAP

## Section One

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### WHAT IS A HOME APPRAISAL, HOW DOES IT WORK, AND WHAT ROLE DOES IT PLAY IN THE TRANSACTION?

#### Definition:

A home appraisal is an unbiased professional opinion of a home's value. It's conducted by a certified or licensed appraiser.

- **Purpose:**

The primary purpose of an appraisal is to determine the fair market value of a home. It provides an objective estimate of the property's worth. These are most commonly required by the Mortgage Lender, as well as the VA, as risk mitigation for the lender and home buyer. The cost of an appraisal is typically seen at closing as a buyer-paid closing cost.

#### How Home Appraisals Work

- **Initiation:**

In a home buying scenario, the appraisal is typically ordered by the lender. For home sellers, an appraisal might be conducted before listing the property to help determine a listing price.

- **Appraisal Process:**

The appraiser visits the property and inspects it to determine its condition, size, features, and function. They evaluate factors like the home's location, lot size, square footage, recent improvements, and (most commonly) compare it to similar properties in the area that have sold recently.



# HOME BUYING ROAD MAP

## Section One

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### WHAT IS A HOME APPRAISAL, HOW DOES IT WORK, AND WHAT ROLE DOES IT PLAY IN THE TRANSACTION? (CONTINUED)

#### **Appraisal Report:**

After completing the evaluation, the appraiser compiles a report that includes an analysis of the property and the market, photographs, maps, sketches, and a detailed explanation of how they determined the home's value.

#### **Utilization in the Home Buying/Selling Process**

- **For Buyers:**

**Loan Amount Determination:** Lenders use the appraised value to determine how much money to lend. They typically won't lend more than the home's appraised value.

**Negotiations:** If an appraisal comes in lower than the offer price, often called "tidewater", buyers can terminate the contract, renegotiate the price, ask the seller to cover the difference, or may have to cover the difference themselves with cash in a competitive market. If no negotiations can be met, VA buyers have the opportunity to do a Reassessment of Value (ROV) to reassess the value to close on that home.

- **For Sellers:**

**Setting a Selling Price:** An appraisal can help a seller set a realistic selling price for their home.

**Negotiating with Buyers:** If the appraisal matches or exceeds the asking price, it can justify the seller's asking price in negotiations.

- **For Refinancing:**

Homeowners looking to refinance their mortgage will commonly need an appraisal to determine the current value of their home. If your home is on a VA loan you can do a VA Streamline Refinance (also known as VA IRRRL) where you do not need another appraisal conducted or paid for.

#### **Special Considerations for Military and Veteran Buyers**

- **VA Loans and Appraisals:**

For those using a VA loan, the Department of Veterans Affairs requires a specific type of appraisal, known as a VA appraisal, which not only assesses the value of the home but also ensures it meets minimum property requirements for safety and habitability.

The VA Loan also, by law, protects buyers from purchasing a home beyond its market value. If a home appraises under the negotiated purchase price, the buyer has the ability to terminate the contract and receive their earnest money back, or renegotiate the terms of the contract. This is often referred to as "tidewater."

# HOME BUYING ROAD MAP

## Section One

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### WHAT IS HOMEOWNERS INSURANCE?

#### Definition:

Homeowners insurance is a form of property insurance that covers losses and damages to an individual's house and assets in the home. It also provides liability coverage against accidents in the home or on the property.

#### Components of Coverage:

Dwelling Coverage: Covers the structure of the home.

Personal Property Coverage: Covers personal belongings inside the home.

Liability Protection: Covers legal responsibility for any injuries and property damage policyholders or their families cause to other people.

Additional Living Expenses (ALE): Covers the costs of living away from home if it is uninhabitable due to a covered disaster.

#### Shopping for the Best Coverage

- **Assess Your Needs:**

Evaluate the value of your home and possessions to determine how much coverage you need.

Consider specific risks in your area (like flooding, and earthquakes) that might require additional coverage.

- **Compare Quotes:**

Get quotes from several insurance companies to compare prices and coverage options. Don't just look at the price – consider the coverage levels, deductibles, and exclusions.

- **Check Financial Strength and Customer Service:**

Research the insurance company's financial stability and customer service reputation. Companies like A.M. Best and J.D. Power provide ratings and customer satisfaction surveys.



# HOME BUYING ROAD MAP

## Section One

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### WHAT IS HOMEOWNERS INSURANCE? (CONTINUED)

- **Understand the Policy:**

Make sure you understand what is and isn't covered. Ask about any terms or conditions you don't understand.

- **Look for Discounts:**

Many insurers offer discounts for things like security systems, impact resistant roofs, smoke detectors, or bundling policies (like auto and home insurance).

- **Review Annually:**

Your insurance needs may change over time, so review your policy annually to make sure it still meets your needs, as well as assess any increases to your premium as you have the ability to shop and choose a different carrier.

#### Importance of Homeowners Insurance

- **Protection Against Losses:**

It provides financial protection against loss due to disasters, theft, and accidents.

- **Mortgage Requirement:**

Most mortgage lenders require homeowners insurance as part of the lending terms.

- **Liability Coverage:**

It protects you against lawsuits for bodily injury or property damage that you or family members cause to other people.

- **Peace of Mind:**

Homeowners insurance offers peace of mind by providing a safety net for your most significant investment.

#### Special Considerations for Military and Veteran Homeowners

**Additional Coverage for Uniforms and Military Equipment:** If you are in the military, you may want to look for policies that offer additional coverage for military uniforms and equipment.

**Understanding Policy During Deployment:** If you are deployed, make sure your policy remains in effect and understand how it applies to an unoccupied home.

# HOME BUYING ROAD MAP

## Section One

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### WHAT DOES "CLEARED TO CLOSE" MEAN?

**Definition:**

Being "cleared to close" means that all the conditions set forth by the mortgage lender have been met, and the lender is now ready to finalize the loan and fund the purchase of the property. Connect with a VA Loan expert at [VeteranPCS](#).

- **Final Loan Approval:**

This status indicates that any underwriting conditions have been satisfied, the loan has passed final underwriting review, and the mortgage is fully approved. At this stage you will also get your estimated final closing costs. The closing agent (usually a title company or closing attorney) will ultimately provide the final closing costs. Once you have your final closing costs or closing proceeds you can prepare for closing. If you owe money at closing it will have to be in the form of "Good Funds" which can be a cashiers check or wire transfer. Personal checks do not suffice for closing.

**The Process Leading to Final Loan Approval:**

- **Loan Application and Initial Approval:**

The buyer applies for a mortgage, and the lender conducts preliminary approval based on credit, income, and other factors.

- **Underwriting Process:**

The mortgage goes through underwriting, where the lender closely examines the buyer's financials, the property details, and other documentation.

- **Fulfilling Conditions:**

The underwriter may request additional documents or clarifications. The buyer must satisfy these conditions before moving forward.

- **Appraisal and Other Checks:**

The property is appraised, and other checks, such as title searches, are conducted to ensure everything is in order.



# HOME BUYING ROAD MAP

## Section One

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### WHAT DOES “CLEARED TO CLOSE” MEAN? (CONTINUED)

#### After Being Cleared to Close

- **Closing Disclosure:**

Once cleared, the lender prepares and sends a Closing Disclosure to the buyer. This document outlines the final terms of the loan and closing costs.

The buyer should review this document carefully. Any discrepancies or issues should be addressed immediately with the lender.

- **Scheduling the Closing:**

A closing date is scheduled, where the buyer and seller meet to sign the final paperwork, and the property changes ownership.

- **Funding:**

After signing, the lender will fund the loan, and the buyer becomes the owner of the property, contingent on paying off that loan over time.

- **Importance in the Home Buying Process:**

**Assurance of Loan:** Being cleared to close provides the assurance that the mortgage financing is secured, and the purchase is almost complete.

**Ready for Final Steps:** It signals to all parties involved (buyer, seller, real estate agents) that the transaction is ready to proceed to the final stage.

### WHAT IS A CLOSING DISCLOSURE AND WHY IS IT IMPORTANT?

#### Definition:

The Closing Disclosure is a five-page form that provides final details about the mortgage loan you have selected. It includes the loan terms, your projected monthly payments, and how much you will pay in fees and other costs to get your mortgage (closing costs).

- **Purpose:**

Its primary purpose is to ensure that the borrower understands all the costs, fees, and terms associated with their mortgage before finalizing the deal. It also allows you to compare your final closing figures to the Loan Estimate when you started the process.

#### Components of the Closing Disclosure

- **Loan Terms:**

This section shows your loan amount, interest rate, monthly principal and interest, and any prepayment penalty or balloon payment.

- **Projected Payments:**

It outlines your payment calculation over the loan term, including any changes to principal and interest, mortgage insurance (which you won't pay with a VA loan), and estimated escrow (your taxes and insurance). This is often referred to as PITI: principal, interest, taxes, and insurance.

- **Costs at Closing:**

This includes a breakdown of the closing costs, including lender and third-party fees, and the total amount of cash needed at closing.

- **Detailed Closing Costs:**

Itemizes each cost, including loan origination fees, appraisal fees, title insurance, taxes, and other prepaid expenses.

#### Importance of the Closing Disclosure

- **Review and Compare:**

It allows you to review and ensure that what you're agreeing to matches what was initially offered, especially in comparison to a Loan Estimate.

- **Corrections and Clarifications:**

Provides an opportunity to ask questions and get clarifications or corrections if there are discrepancies.

- **Legal Compliance:**

The lender is required by law to give you this form at least three business days before you close on your mortgage loan. This requirement gives you time to review the final terms and costs.

- **Informed Decision Making:**

Ensures you make an informed decision about whether the loan is right for you, avoiding surprises at the closing table.

# HOME BUYING ROAD MAP

## Section One

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### WHAT DOES IT MEAN TO “CLOSE” ON A HOME?

#### Definition of Closing

Closing, also known as settlement or escrow, is the point in time when the ownership of the property is transferred from the seller to the buyer. It is the culmination of the real estate transaction process.

#### What Happens During Closing

- **Signing Legal Documents:**

Both parties sign various legal documents. For the buyer, this typically includes the mortgage agreement (if applicable), the promissory note, and the deed. The seller will sign the deed transferring ownership and documents confirming the payoff of any existing mortgage.

- **Finalizing the Mortgage:**

If the buyer is financing the purchase, the closing is also when the mortgage lender finalizes the loan and provides the funds to purchase the home.

- **Paying Closing Costs:**

Both parties are responsible for certain fees associated with the transaction. The buyer often pays costs related to the mortgage, such as loan origination fees, while the seller may pay title insurance and real estate agent commissions. Nearly all closing costs are negotiable on who pays what, and some fees are limited or not allowed to Veterans.

- **Transferring Ownership:**

Once all documents are signed and funds are exchanged, the ownership of the property is officially transferred from the seller to the buyer.

- **Recording the Deed:**

The deed and mortgage (if applicable) are recorded in the local government's land records, formalizing the change in ownership.

#### Importance of Closing

- **Completion of Sale:** Closing signifies the completion of the real estate transaction.

- **Transfer of Rights:** It legally transfers ownership and possession rights from the seller to the buyer.

- **Finalization of Agreements:** All agreements and conditions set forth in the purchase agreement are finalized and legally binding.

# HOME BUYING ROAD MAP

## Section One

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### WHAT SHOULD YOU AVOID DOING WHEN GETTING READY TO BUY A HOME?

When preparing to buy a home, there are several important financial behaviors to avoid. These actions can impact your credit score, debt-to-income ratio, and overall financial stability, which are critical factors in securing a mortgage and buying a home. For more clarity on setting yourself up for success, speak with a [VeteranPCS VA Loan Expert](#) early on in your process.

#### Things to Avoid When Preparing to Buy a Home

- **Opening New Credit Cards or Loans:**

Taking on new debt can affect your credit score and debt-to-income ratio, making you less attractive to lenders.

New credit inquiries can also temporarily lower your credit score.

- **Making Large Purchases:**

Avoid buying big-ticket items like cars or expensive appliances. Large expenditures can increase your debt and may raise concerns with lenders about your ability to handle additional financial obligations.

- **Switching Banks or Moving Money Around:**

Lenders look for stability in your financial history. Frequently changing banks or moving money between accounts can create confusion and lead to issues during the underwriting process.

- **Making Large Deposits or Withdrawals:**

Large, unexplained deposits or withdrawals can raise red flags for lenders. They prefer to see steady, predictable financial activity.

### WHAT SHOULD YOU AVOID DOING WHEN GETTING READY TO BUY A HOME? (CONTINUED)

- ***Changing Jobs or Losing Income:***

Lenders look for stable, reliable income when approving loans. Changing jobs, especially to a lower-paying or less stable position, can impact your loan approval. Similarly, losing income or becoming unemployed is a significant risk that can affect your mortgage application.

- ***Co-Signing on Loans:***

Co-signing for someone else's loan counts as your obligation. This can increase your debt-to-income ratio, affecting your loan eligibility.

- ***Ignoring Bills or Credit Responsibilities:***

Late payments, delinquencies, or other negative marks on your credit report can significantly decrease your credit score, as well as entirely restrict your ability to get approved for a mortgage for 12 months.

- ***Closing Credit Accounts:***

While it might seem wise to close unused credit accounts, doing so can actually harm your credit score by impacting your credit history length and credit utilization ratio.

- ***Taking on New Financial Obligations:***

Avoid any new financial commitments that could affect your ability to pay your mortgage, like starting a new business with significant capital requirements.

It is important to consult with a [VeteranPCS VA Loan Expert](#) on your personal situation and plan.

# Section Two

## Understanding The VA Loan

- [Understanding The VA Loan](#)
- [Mortgage Loan Basics](#)
- [What are the Requirements to be Eligible for a VA Loan?](#)
- [What is a VA Loan Certificate of Eligibility and Why is it Important?](#)
- [What is VA Loan Entitlement?](#)
- [Pre-Approval vs Pre-Qualified](#)
- [VA Funding Fee](#)
- [Understanding Your Mortgage Payment](#)
- [Mortgage Amortization](#)
- [Paying Your New Mortgage](#)
- [Paying Your Mortgage Off Early](#)
- [What is Escrow?](#)
- [What kind of Homes can and cannot be bought with a VA Loan?](#)
- [What are the Occupancy Requirements when Purchasing a Home?](#)
- [Contact US](#)



# UNDERSTANDING THE VA LOAN

## Section Two

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### MORTGAGE LOAN BASICS

#### Interest Rate

#### APR

#### Down Payments

#### Closing Costs

#### Federally Backed Loans

#### VA Loan

#### Conventional Loan

#### FHA Loan

#### Mortgage Insurance

#### Conforming vs. Non-conforming loans

#### Interest Rate

Definition: The interest rate on a mortgage is the cost you pay each year to borrow money, expressed as a percentage rate.

**Fixed vs. Adjustable Rates:** Fixed interest rates remain constant over the life of the loan, whereas adjustable rates can fluctuate making your monthly payment increase. Many adjustable rate mortgages have set parameters on how much that interest rate percentage can fluctuate and when it can adjust.

#### APR

Definition: APR stands for Annual Percentage Rate. It represents the total cost of borrowing on an annual basis, including interest rates and any additional fees or costs. The key difference between APR and your Interest Rate is accounting for fees. For a VA loan, comparing the APR to the Interest Rate helps borrowers understand the true cost of credit over a year. Two Lenders may offer the same Interest Rate but comparing the APR will show you which one has more in fees. In essence, it provides a clearer picture of how much you'll pay annually, beyond just the interest rate.



# UNDERSTANDING THE VA LOAN

## Section Two

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### Down Payments

**What They Are:** A down payment is an upfront payment you make to purchase a home. It's typically a percentage of the home's purchase price.

**Impact:** Larger down payments can result in lower mortgage payments and less interest over the life of the loan. In conventional loans, a down payment over 20% would also eliminate paying any Private Mortgage Insurance, or PMI.

### Closing Costs

**What They Are:** Closing costs are fees and expenses you pay to finalize a mortgage. They include loan origination fees, appraisal fees, title searches, and more.

**Typical Amount:** They typically range from 1% to 5% of the loan amount.

### Federally Backed Loans

**Definition:** These are loans backed by the federal government, offering lenders protection against borrower default.

**Types:** Includes VA loans, FHA loans, and USDA loans. They often have lower interest rates, lower down payment requirements, and/or are available to purchasers with lower credit scores.

### VA Loan

**Definition:** A VA Loan is a mortgage loan in the United States guaranteed by the Department of Veterans Affairs (VA). It's designed for U.S. veterans, service members, and their spouses.

**Benefits:** It requires no down payment and no private mortgage insurance (PMI). VA loans are known for their favorable terms and accessibility.



# UNDERSTANDING THE VA LOAN

## Section Two

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### Conventional Loans

**Definition:** Conventional loans are mortgage loans not insured or guaranteed by the federal government.

**Characteristics:** They typically have stricter credit score and down payment requirements but offer more flexibility in terms of loan amounts and property types. With a conventional loan, you can put down as little as 3% of the purchase price. Keep in mind that you'll have to pay Private Mortgage Insurance if you put down less than 20%. If you put down 20% or more you will not have to pay PMI. If you do have PMI, it will automatically fall off of your monthly payment once you reach a projected equity of 22%. You can request your PMI to be cancelled early when you reach a projected equity of 20%.

### FHA Loans

**Definition:** FHA loans are insured by the Federal Housing Administration, part of the U.S. Department of Housing and Urban Development.

**Benefits:** They're popular among first-time homebuyers for their lower minimum down payment (as low as 3.5%) and lower credit score requirements.

**Mortgage Insurance:** Depending on the type of loan and amount of down payment, borrowers may be required to pay mortgage insurance, which protects the lender in case of default. With a conventional loan this is called Private Mortgage Insurance, or PMI. With an FHA loan its called a Mortgage Insurance Premium, or MIP. MIP is an upfront fee at closing as well as an amount tied into your monthly payment acting as mortgage insurance.

### Conforming vs. Non-conforming loans

Conforming and non-conforming loans refer to whether a loan meets the guidelines set by government-sponsored entities like Fannie Mae and Freddie Mac.

**Conforming Loans:** These adhere to the standards set by these agencies, including limits on loan amounts, borrower credit scores, and debt-to-income ratios. They often have lower interest rates and more favorable terms because they are less risky for lenders and can be sold to these agencies.

**Non-Conforming Loans:** These do not meet the guidelines of Fannie Mae or Freddie Mac. They include jumbo loans (which exceed the conforming loan limits) and loans with unconventional terms or credit requirements. Because they are not eligible for sale to these agencies, they often have higher interest rates and stricter terms.

# UNDERSTANDING THE VA LOAN

## Section Two

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### WHAT ARE THE REQUIREMENTS TO BE ELIGIBLE FOR A VA LOAN?

#### Active Duty Service Members:

- **Service Duration:** Generally, active duty service members become eligible after 90 continuous days of service.

#### National Guard and Reserve Members:

- **Service Duration:** Members of the National Guard and Reserves are typically eligible after six years of service, or
- **Activation for Federal Service:** If they are activated under Title 10 of the U.S. Code for a period of 90 consecutive days, they become eligible sooner.

#### Veterans:

- **Service Duration:** Eligibility varies based on when and how long they served. Generally, veterans who served:

90 consecutive days of active service during wartime.

181 days of active service during peacetime.

Less than the standard period if discharged for a service-connected disability.

#### Other Eligibility Considerations:

- **Discharge Status:** Eligible veterans typically must have been discharged under conditions other than dishonorable.
- **Certificate of Eligibility (COE):** To apply for a VA Loan, all eligible persons must obtain a COE, which proves to lenders that they qualify for a VA-backed loan.



# UNDERSTANDING THE VA LOAN

## Section Two

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### WHAT ARE THE REQUIREMENTS TO BE ELIGIBLE FOR A VA LOAN? (CONTINUED)

**Credit and Income Requirements:** While the VA does not set a minimum credit score or maximum debt-to-income ratio, lenders might have their own criteria. All [VA Loan Experts](#) on VeteranPCS are able to discuss credit requirements and, if needed, help you build a credit repair plan.

**Primary Residence:** VA Loans are intended for primary residences, not investment properties.

#### **Surviving Spouses**

Eligibility extends to the surviving spouses of service members who died in the line of duty or as a result of a service-connected disability. They are not required to remarry to maintain eligibility.

Disclaimer: This information provides a general overview and may not cover all scenarios. For the most accurate and up-to-date information, it's advisable to consult a [VeteranPCS VA Loan Expert](#).

# UNDERSTANDING THE VA LOAN

## Section Two

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### WHAT IS A VA LOAN CERTIFICATE OF ELIGIBILITY AND WHY IS IT IMPORTANT?

#### **Definition:**

The Certificate of Eligibility (COE) is a document issued by the U.S. Department of Veterans Affairs that certifies a borrower's eligibility to obtain a VA home loan. It is the golden ticket you need to use the VA Loan.

- **Contents of the COE:**

It includes important information such as the entitlement amount, which is the portion of the loan the VA guarantees, and eligibility status based on service history. This will also show you how much entitlement you've used in the past which can be used to calculate remaining entitlement for a 2nd-time VA loan purchase.

#### **Why is the COE Important?**

- **Proof of Eligibility:**

The COE is proof to mortgage lenders that you are eligible for a VA-backed loan. Without it, lenders can't process your VA loan application.

- **Loan Entitlement Information:**

It shows lenders how much entitlement you have, which can affect the amount of money you can borrow without needing a down payment. If you didn't know, you can have multiple homes on the VA loan at one time but there are limitations. We will go into that further in our Advanced Home Buyer Guide. If you want to know how that works now, contact one of our [VA Loan Experts](#).

- **Streamlines the Loan Process:**

Having a COE can streamline the VA loan process, making it quicker and easier for both the borrower and the lender.

# UNDERSTANDING THE VA LOAN

## Section Two

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### WHAT IS A VA LOAN CERTIFICATE OF ELIGIBILITY AND WHY IS IT IMPORTANT? (CONTINUED)

#### How to Obtain a COE

- **Online Through the eBenefits Portal:**

Veterans and current service members can apply for a COE through the VA's eBenefits portal.

- **Through a Lender (easiest way):**

[VeteranPCS VA Loan Experts](#) have access to a system that can establish eligibility and issue an online COE in a matter of minutes.

- **By Mail:**

You can fill out VA Form 26-1880 (Request for a Certificate of Eligibility) and mail it to the VA Eligibility Center along with the required documentation.

#### Required Documentation

- **For Veterans:**

A copy of the DD-214, which is the certificate of release or discharge from active duty.

- **For Current Service Members:**

A statement of service signed by the personnel officer or commander.

- **For National Guard or Reserve Members:**

A statement of service, NGB Form 22, or NGB Form 23.

# UNDERSTANDING THE VA LOAN

## Section Two

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### WHAT IS VA LOAN ENTITLEMENT?

VA Loan Entitlement can be tricky to understand. In a basic sense, entitlement refers to how much the VA will guarantee if the borrower defaults. There are three types of entitlement to understand: basic entitlement, bonus entitlement, and restoration of entitlement.

**Basic Entitlement:** As of 2020, the VA loan limit went away. What this means is that if you only have one primary-residence home on the VA Loan, you will have full entitlement and no limit on the price of home, as long as you can qualify for it.

**Bonus Entitlement:** Bonus entitlement comes into play if you are purchasing a second home with your VA loan entitlement, while keeping the previous one(s). The VA loan is designed to help veterans with their primary residence, not necessarily buy as many homes as possible. In cases where you would have two homes guaranteed by the VA loan, there are limits set. A simple example is if your first home was \$250,000 with \$0 down, and your county loan limit of where you're buying next is \$750,000, you would have \$500,000 in purchasing power remaining. Keep in mind that entitlement is calculated on a factor of 25% and reflected that way on the Certificate of Eligibility. The calculation for remaining entitlement isn't as straightforward as the example since you may be moving from a county with a higher county loan limit to a county with a lower limit. For an exact calculation contact one of our [VeteranPCS VA Loan experts](#).

**Restoration of Entitlement:** If a VA loan is paid off or a property is sold, veterans can restore their full entitlement for future use. This is common when you sell one home and use the VA loan for your next home. If you sell your only home on the VA Loan and restore your entitlement you would have full entitlement and have no max on the home price, as long as you qualify for those loan payments and amount.

**Loan Limits:** While the VA doesn't set a maximum loan amount, the entitlement limits can affect how much the VA will guarantee if you have a second or third home on the VA Loan. Any amount that you go above the remaining entitlement would mean you would need to cover 25% down payment. In example, if you have \$400,000 of remaining entitlement but you purchase a home at \$500,000 you would need to put 25% down of the difference (in this case \$25,000 which is 25% of \$100,000).

# UNDERSTANDING THE VA LOAN

## Section Two

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### PRE-APPROVAL VS PRE-QUALIFIED

Understanding the difference between getting pre-approved and being pre-qualified is crucial in the home-buying process, especially for military and veteran clients who may be navigating these steps for the first time. Bottom line: you'll want a full pre-approval prior to submitting an offer on a home, not just a pre-qualification.

#### ***Pre-Qualification:***

**Process:** Pre-qualification is typically the first step in the mortgage process. It involves providing a bank or lender with an overview of your financial status, including your income, assets, debts, and credit score.

**Depth of Analysis:** This step usually *doesn't* involve a deep dive into your financial records. It's more of an informal assessment.

**Result:** You'll receive an estimate of how much you *might* be able to borrow. This is based largely on the information you provide and is not a commitment by the lender to give you a loan.

**Purpose:** Pre-qualification can give you a general idea of your budget and can be done quickly, often online or over the phone.

#### ***Pre-Approval:***

**Process:** Pre-approval is more involved. You'll complete an official mortgage application and supply the lender with the necessary documentation to perform an extensive check on your financial background and current credit rating.

**Depth of Analysis:** The lender will review your income, debts, assets, credit history, and other aspects of your financial situation to assess your creditworthiness.

**Result:** If pre-approved, you'll receive a conditional commitment in writing for an exact loan amount, allowing you to look for homes at or below that price level.

**Purpose:** This is a stronger indicator than a pre-qualification and shows sellers that you are serious and capable of securing a mortgage. It's particularly useful in competitive housing markets.

For military and veteran clients, these steps are just as important. Understanding the differences can help them make informed decisions, especially when considering VA loans or other military-specific financial products. Pre-approval often carries more weight than pre-qualification in a real estate transaction, signaling to sellers that the buyer's financials have been thoroughly vetted.

# UNDERSTANDING THE VA LOAN

## Section Two

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### VA FUNDING FEE

*What is the VA Funding Fee?*

**Definition:**

The VA Funding Fee is a one-time fee paid by veterans, service members, and sometimes spouses who use the VA home loan program. In most cases, the fee is rolled into the loan amount so you don't pay it out of pocket, but rather pay it through your mortgage payments over time. It's intended to reduce the loan's cost to taxpayers since VA loans do not require down payments or mortgage insurance.

**How the VA Funding Fee Works**

The fee varies based on several factors: the borrower's service type, loan type, down payment size, and whether it's the borrower's first time using a VA loan.

Generally, the fee ranges from about 1.25% to 3.3% of the loan amount. First-time users typically pay lower fees than repeat users. And purchasers that are able to put money down will have a reduced funding fee.



# UNDERSTANDING THE VA LOAN

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	If your down payment is	Your VA funding fee will be
First use	Less than 5%	2.15%
	5% or more	1.5%
	10% or more	1.25%
After first use	Less than 5%	3.3%
	5% or more	1.5%
	10% or more	1.25%

**Example 1:** You purchase a home for \$400,000 with \$0 down your funding fee would be \$8,600.

If you rolled that into the loan your new loan amount would be \$408,600, even though the purchase price of the home was \$400,000.

**Example 2:** You use your VA loan for the second time and you purchase a home for \$400,000.

- With \$0 down, your funding fee would be \$13,200. Ouch.
- If you have \$20,000 to put down on the purchase (5%), you've reduced your VA funding fee to \$6,000 (1.5%). A significant savings over the life of the loan.

### Exemptions:

Certain individuals are exempt from paying the VA Funding Fee.

- Veterans receiving VA compensation for service-connected disabilities of 10% or more
- Veterans who would be entitled to receive compensation for service-connected disabilities if they did not receive retirement or active duty pay
- A surviving spouse receiving Dependency and Indemnity Compensation (DIC)
- Purple Heart Recipients including those still serving.

### Importance of the VA Funding Fee

#### *Sustainability of the Program:*

The fee helps to fund the VA home loan program, ensuring its sustainability and continued availability for future veterans.

#### *Benefits Still Outweigh Costs:*

Despite the fee, VA loans are still often more affordable than conventional loans due to their no down payment and no private mortgage insurance requirements.



# UNDERSTANDING THE VA LOAN

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### UNDERSTANDING YOUR MORTGAGE PAYMENT

A mortgage payment typically includes several components that together cover the costs of borrowing money to purchase a home. Here's a brief overview of what's usually incorporated in a mortgage payment, often times referred to as 'PITI'

#### 1. Principal

**Definition:** The principal is the portion of the payment that goes towards paying down the original amount borrowed.

**Impact Over Time:** Early in the mortgage term, a smaller portion of the payment goes towards the principal (oftentimes less than 25% of the total payment goes to principal). Over time, as the interest portion decreases, more of the payment is applied to the principal.

#### 2. Interest

**Definition:** Interest is the cost of borrowing money. It's calculated as a percentage of the outstanding principal.

**Early Payments:** Initially, a larger portion of the mortgage payment is typically allocated to interest.

#### 3. Taxes

**Property Taxes:** Most mortgage payments include an allocation for property taxes, which are levied by the local government.

**Escrow Account:** This portion is often collected and held in an escrow account by the lender, who then pays the property taxes when they are due.

#### 4. Insurance

**Homeowners Insurance:** This insurance covers damage to the home and property, and it's a requirement by lenders. Like taxes, it's often collected and held in escrow.

# UNDERSTANDING THE VA LOAN

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### UNDERSTANDING YOUR MORTGAGE PAYMENT (CONTINUED)

Let's look at an example:

If you have a mortgage payment (PITI) of \$2,500 your breakdown could look like this:

- \$350 towards principal
- \$1800 towards interest
- \$200 towards property taxes
- \$150 towards home owners insurance

Notice how much higher the interest payment is. Towards the last few years of the 30 year loan that would be switched. Roughly \$1800 of your payment would go towards principal and only about \$350 would go towards interest. Mortgage companies make sure they make their interest money early on the loan as they predict that it will not be held for the full 30 years. This is called Amortization, and we go more in depth on this in the section below.

So - how does this impact you? Lets say you own the home for 3 years and then want to sell. You may think that 36 months of \$2500 has reduced your loan amount by \$90,000. Not so.

In reality you may have only paid about \$12,600 of your principal balance over three years.

Its also important to note that your "fixed" interest rate does not mean your monthly payment will be fixed for 30 years. The interest rate is fixed, but taxes and home insurance are almost guaranteed to increase over time. Taxes and Insurance are the two items in PITI that will change your monthly payment over the life of the loan. You can also Refinance your loan (after 210 days on a VA Loan) and this can lower your interest rate and lower your payments.

#### *Pro Tip*

Making one extra payment per year solely towards Principal can reduce your payoff date from 30 years down to 24 years and save hundreds of thousands of dollars in interest. At the end of each year try and make a payment of just principal.

# UNDERSTANDING THE VA LOAN

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### UNDERSTANDING YOUR MORTGAGE PAYMENT (CONTINUED)

**Other fees that may be included in your mortgage payment:**

- ***Private Mortgage Insurance (PMI):***

If you use a conventional loan, rather than VA Loan, and the down payment is less than 20% of the home's value, lenders typically require PMI which is an added fee. It protects the lender in case the borrower defaults on the loan. PMI is higher the less money you have to put down.

- ***Mortgage Insurance Premium (MIP)***

Borrowers using the FHA loans are required to pay an MIP, similar to PMI, which is also included in the mortgage payment. MIP has an upfront cost at closing, as well as an amount every month in the payment.

- ***Homeowners Association (HOA) Fees***

For Certain Properties: If the property is part of a homeowners association, the monthly HOA fees may also be included in the mortgage payment.



# UNDERSTANDING THE VA LOAN

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### MORTGAGE AMORTIZATION

#### What is Amortization?

##### Definition:

Amortization in terms of a mortgage is the process of spreading out the loan (usually a fixed-rate mortgage) into a series of fixed payments over the loan's term. What we briefly touched on in the section above.

- **Payment Components:**

Each payment includes a portion that goes towards paying the interest on the loan and a portion that goes towards paying down the principal (the original loan amount). Amortization and Mortgage Payments.

- **Early Payments:**

In the early years of a mortgage, a larger portion of each payment is applied to interest. This is because the interest is calculated on the remaining balance, which is highest at the start.

- **Later Payments:**

As the loan balance decreases over time, the interest portion of each payment decreases, and the principal portion increases. Thus, more of each payment goes towards reducing the loan balance.

- **Amortization Schedule:**

Lenders provide an amortization schedule, which is a table detailing each periodic payment on a loan. It shows the amount of each payment that goes towards interest and principal and the remaining balance after each payment.

# UNDERSTANDING THE VA LOAN

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### MORTGAGE AMORTIZATION (CONTINUED)

- ***Impact of Extra Payments:***

Making extra payments towards the principal can reduce the total amount of interest paid and shorten the loan term, as it changes the amortization schedule by reducing the principal balance faster. See the 'Pro Tip' in the section above.

#### **Benefits of Understanding Amortization**

**Financial Planning:** Understanding how amortization works can help you plan your finances, as you'll know exactly how much of each mortgage payment goes towards the principal and interest.

**Informed Decisions:** It helps in making informed decisions about refinancing, making extra payments, or buying points to lower the interest rate.

# UNDERSTANDING THE VA LOAN

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### PAYING YOUR NEW MORTGAGE

#### Setting Up Mortgage Payments

- **Automatic Payments:**

Most lenders offer an option to set up automatic payments from your bank account. This ensures payments are made on time and can sometimes qualify you for a small discount.

- **Online Payments:**

You can usually pay your mortgage online through the lender's website. This might require setting up an account where you can manage payments, view balances, and track your loan progress.

- **By Mail:**

Traditional mail is still an option. You can send a check or money order to the address provided by your lender. Be sure to include your loan number on the check.

- **Phone Payments:**

Some lenders allow you to make payments over the phone, either through an automated system or by speaking to a customer service representative.

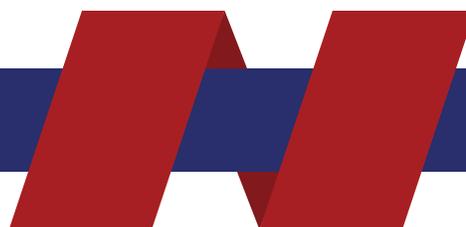
- **In-Person Payments:**

If your lender has local branches, you might be able to make payments in person.

#### Things to Consider

- **Payment Schedule:**

Know your payment schedule – whether it's monthly, bi-weekly, or another arrangement. The most common is monthly.



# UNDERSTANDING THE VA LOAN

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### PAYING YOUR NEW MORTGAGE (CONTINUED)

#### **Due Date and Grace Period:**

Be aware of your payment due date and any grace period your lender provides. Late payments can incur fees and will affect your credit score as well as your ability to qualify for another mortgage in the future. Most lenders have a 15 day grace period to pay your mortgage payment before incurring a late fee.

- **Additional Payments:**

If you wish to pay off your mortgage faster, consider making additional payments towards the principal. VA Loans do not have prepayment penalties. If you have a loan other than a VA Loan be sure to check with your lender about any prepayment penalties.

- **Escrow Accounts:**

If your mortgage includes an escrow account for taxes and insurance, these expenses will be included in your monthly payment and managed by your lender.

- **Payment Confirmation:**

Always ensure you receive confirmation of your payment, whether it's an email receipt, a confirmation number, or a statement in the mail.

#### **Change in Mortgage Servicer:**

In most cases, lenders transfer mortgages to another servicer. If this happens, you should receive notification with new payment instructions. This is very common and doesn't change any of the original terms of the loan.

# UNDERSTANDING THE VA LOAN

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### PAYING YOUR MORTGAGE OFF EARLY

Paying off a mortgage loan early is a financial goal for many homeowners. Here's a brief overview of the process and considerations:

#### Paying Off Your Mortgage Early

- **Lump-Sum Payment:**

You can make a large, one-time payment to significantly reduce the principal balance, which can shorten the loan term and reduce the total interest paid.

- **Extra Payments:**

Making additional payments towards the principal, either regularly or occasionally, can reduce the loan balance faster. This can be done by:

Paying extra each month.

Making bi-weekly payments (resulting in one extra monthly payment per year).

Paying an additional amount once a year, like a tax refund or bonus.

#### Considerations for Early Payoff

- **Prepayment Penalties:**

Some mortgages have prepayment penalties (VA Loans do not), especially within the first few years. Check your loan agreement to see if this applies to you.

- **Impact on Finances:**

Consider how paying off your mortgage early fits into your overall financial plan. Sometimes, if you have high-interest debt or insufficient retirement savings, addressing those might be a priority.



# UNDERSTANDING THE VA LOAN

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### PAYING YOUR MORTGAGE OFF EARLY (CONTINUED)

- ***Interest vs. Investment Returns:***

Compare the interest rate on your mortgage with potential investment returns. If you can earn a higher return investing the money, it might be more beneficial to invest rather than pay off the mortgage early.

- ***Tax Implications:***

Consider the impact on your taxes, especially if you're taking advantage of the mortgage interest deduction.

#### **How to Proceed**

- ***Contact Your Lender:***

If you're considering paying off your mortgage early, contact your lender to understand the process, any applicable fees, and to get the exact payoff amount.

- ***Request a Payoff Statement:***

This statement provides the total amount you need to pay to completely satisfy the loan. It accounts for interest and any fees.

- ***Specify Extra Payments for Principal:***

If you're making extra payments, ensure they are applied to the principal, not just set as early payments.

# UNDERSTANDING THE VA LOAN

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### WHAT IS ESCROW?

#### **Definition:**

Escrow refers to a financial arrangement where a third party holds and regulates the payment of funds required for two parties involved in a given transaction. It helps make transactions more secure by keeping the payment in a secure escrow account.

#### **How Escrow Works in Real Estate**

- ***During a Home Purchase:***

When buying a home, escrow starts when the buyer puts down an earnest money deposit after the seller accepts their offer. This deposit is held in an escrow account until the sale is finalized, protecting both the buyer's funds and the seller's property.

- ***At Closing:***

During the closing of a home sale, the escrow agent will ensure that all conditions of the sale are met before the buyer and seller exchange funds and the property title.

- ***For Mortgage Payments:***

Homebuyers often pay property taxes and homeowner's insurance into an escrow account as part of their monthly mortgage payment.

The lender or a third party (the escrow agent) holds these funds and makes property tax and insurance payments on behalf of the homeowner. This ensures these bills are paid on time and reduces the risk for the lender.

#### **Benefits of Escrow**

- ***Security:***

Escrow provides security for both parties in a transaction by ensuring that no funds or property will change hands until all terms of the agreement are met.

- ***Simplicity for Homeowners:***

By including property taxes and insurance in the mortgage payment and having them paid through escrow, homeowners don't need to worry about budgeting for these large, periodic expenses.

- ***Assurance for Lenders:***

Lenders have assurance that property taxes and insurance payments will be made on time, protecting their investment in the property.

# UNDERSTANDING THE VA LOAN

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### WHAT KIND OF HOMES CAN AND CANNOT BE BOUGHT WITH A VA LOAN?

#### Types of Homes You Can Buy with a VA Loan

- **Single-Family Homes:**

Most single-family homes qualify for VA financing as long as they meet the VA's property standards. If you have questions about a specific property contact a [VeteranPCS VA Loan Expert](#). Not all lending institutions are the same. For example, some lenders will do construction loans and many others will not.

- **Condos and Townhomes:**

Condos and townhomes are eligible, but the condominium complex must be VA-approved.

- **Modular and Manufactured Homes:**

These are eligible, but they must be permanently affixed to a foundation and meet certain VA guidelines.

- **Multi-Unit Properties:**

You can buy a property with up to four units, as long as you occupy one of the units as your primary residence. This is an important insight that could add to your real estate investing portfolio.

- **New Construction:**

New construction homes are eligible, but they must meet all VA standards and have a VA Appraisal done.

#### Types of Homes You Cannot Buy with a VA Loan

- **Investment Properties:**

The VA loan is not for investment properties or vacation homes. The borrower must occupy the home as their primary residence.

- **Fixer-Uppers:**

Homes that need significant repairs or renovations may not qualify, as the VA requires properties to be in good living condition, meeting its Minimum Property Requirements (MPRs).

- **Certain Types of Condos and Co-Ops:**

Condominiums or co-ops that are not VA-approved are not eligible. Approval depends on factors like the financial health of the complex, bylaws, and even the insurance that the condo holds.

# UNDERSTANDING THE VA LOAN

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### WHAT KIND OF HOMES CAN AND CANNOT BE BOUGHT WITH A VA LOAN? (CONTINUED)

- ***Some Manufactured Homes and Lots:***

Manufactured homes that are not permanently affixed or do not meet other VA standards may be ineligible. Buying just the land without immediate plans for construction is also typically not covered.

- ***Commercial Properties:***

Any property with more than 25% of its space used for commercial purposes does not qualify.

#### **Importance of VA Appraisal**

A VA appraisal is required for every home purchase financed by a VA loan. The appraisal assesses both the value of the home and whether it meets the VA's Minimum Property Requirements for safety and habitability. This is often confused with a VA Inspection. There is no VA inspection, the VA Appraisal is what assesses the home for safety and hazard requirements. You should still obtain a private home inspection outside of your appraisal.



# UNDERSTANDING THE VA LOAN

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### WHAT ARE THE OCCUPANCY REQUIREMENTS WHEN PURCHASING A HOME?

#### Primary Residence:

Many mortgage loans, especially those with favorable terms like lower interest rates or down payments, require the property to be the buyer's primary residence. This typically means the buyer must move into the home within a reasonable amount of time (typically 60 days) after closing unless you can get an exception through the lender. Exceptions may include deployments or upcoming retirement.

#### Duration of Occupancy:

The homeowner is usually required to *intend* to occupy the property for a minimum period of 12 months, to fulfill the primary residence requirement. Certain criteria are exempt, for example, a property that ends up not being suitable for disability, or change of orders.

#### Impacts of Occupancy

This comes down to paying taxes on *Capital Gains*. As long as you have occupied the property for two years out of five years you do not pay capital gains tax on the first \$250,000 of gain for a single filer, \$500,000 for joint filers.

Example: If you purchase a home for \$200,000, fix it up, but sell it after 18 months for \$300,000 you *would* pay taxes on the \$100,000 that you made.

If you held that home for the full 24 months then you would *not* pay capital gains tax in that example.

# UNDERSTANDING THE VA LOAN

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### WHAT ARE THE OCCUPANCY REQUIREMENTS WHEN PURCHASING A HOME? (CONTINUED)

#### Impacts of Occupancy

This comes down to paying taxes on *Capital Gains*. As long as you have occupied the property for two years out of five years you do not pay capital gains tax on the first \$250,000 of gain for a single filer, \$500,000 for joint filers.

Example: If you purchase a home for \$200,000, fix it up, but sell it after 18 months for \$300,000 you *would* pay taxes on the \$100,000 that you made.

If you held that home for the full 24 months then you would *not* pay capital gains tax in that example. Due to changing tax law, consult a CPA to go over this in depth.

#### Specific Requirements for Loan Types

- **FHA Loans:**

FHA loans require the borrower to occupy the property as their primary residence and usually move in within 60 days of closing.

- **VA Loans:**

For VA loans, the borrower must intend to occupy the home as their primary residence. Veterans are generally required to move in within 60 days after closing, though, extensions can be granted in certain circumstances, like active duty service members who are deployed.

- **Conventional Loans:**

Conventional loans also typically have an occupancy requirement if the property is being purchased as a primary residence.

#### Investment Properties and Second Homes

- **Investment Properties:**

If the property is purchased as an investment, the buyer is not required to live in the home. However, investment properties usually come with higher interest rates and down payment requirements.

- **Second Homes:**

For second homes, lenders have specific criteria that must be met, such as distance from the primary residence and limitations on rental.

Importance of Adhering to Occupancy Requirements Violating the occupancy requirements of a loan can be considered mortgage fraud and may have serious legal consequences. Lenders may periodically check to ensure compliance with occupancy requirements.



# Contact Us

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