C2 FINANCIAL CORPORATION

HOW TO PURCHASE A HOME **WITH NO DOWN PAYMENT**

Using Your VA Loan Eligibility

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What I do is help people who are looking to buy, sell or refinance residential real estate using a traditional or a reverse mortgage (1-4 units) and are concerned about paying interest that they could otherwise be investing.

How do I do that? I work with my clients to help them analyze and determine the most efficient way to borrow so that they can reduce their total cost of borrowing and help them direct more of their money to savings and investments. I use our cutting edge Borrow Smart Analysis Tool to bring to life these savings and help my clients choose the best path to take with a Mortgage or even without a mortgage.

I am a branch manager of C2 Financial Corporation, the largest Mortgage Brokerage in CA, which provides financing for 1-4 unit residential properties thru its vast network of nearly 100 lending institutions.

We have many solutions for small business owner's and independent contractors who don't meet traditional financing guidelines; solutions such as non-traditional ways to prove the ability to make payments. An additional expertise is in avoiding a full or partial reassessment of the property taxes during an inheritance buy-out (one heir wants to keep the home and the remaining heirs want cash).

With 27+ years in Marine Corps, Todd personally specializes in Veteran's Administration (VA) loans.

I look forward to serving you soon,

Todd Swanson

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Getting Started with A VA Loan

Are you thinking about buying a home but not sure if you can use a VA loan? Are you wondering if the VA loan product is the right way to go? This guide gives you the information needed to have the clarity and confidence to use a VA loan to purchase your new home and can also help you determine if going VA is the right thing to do. I know you want to make a sound decision with what is likely your largest purchase and investment of your life and I am so excited to help you do just that.

Understanding the steps involved in buying a house, the documentation required and what is expected of you allows you to team up successfully with a licensed mortgage professional and make a sound and prudent home purchase happen.

Many of my clients often wonder if It is possible to buy a home, even in a higher cost of living area like San Diego which is where I live. Many fear they don't have the down payment or proper credit rating to qualify for a home purchase but I can tell you that I making the homeownership dream come true. You will learn in this guide what it takes to get a VA loan, the details of the VA loan program and the mistakes to avoid so you can qualify for a VA loan.

It may seem like a lot of work but if you do your homework, understand a little better the mortgage process and work with a mortgage professional, you can own your own home. Let's get started!

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What is a VA Loan: The VA Guarantee vs. VA Home Loan

A VA Home Mortgage is a loan that the Veterans Administration helps active duty and retired veterans use to acquire a home or refinance one. This guide will focus on the purchase of a home but always remember it can be used to refinance one as well.

A VA home loan can be completed through you're a typical Big Bank institution (e.g. Wells Fargo, a US Bank, etc.) or through a mortgage broker. A mortgage broker helps you get the financing to purchase your home, comparing lenders for you and helping you through the entire process. A recent study also concluded that mortgage brokers often provide the lowest interest rate in a mortgage transaction.

A VA Guarantee is through the Veterans Administration – they guarantee a portion of the loan. This means if something goes wrong, the Veterans Administration will cover most of, if not the entire loan. The VA guarantee mitigates risk for the lender. The interaction with the Veterans Administration is mostly handled directly by the lender behind the scenes; the veteran has very little involvement with the Veterans Administration during the mortgage process.

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Should I get a conventional loan instead of a VA Loan?

This question often comes up, especially when a client has money for a down payment. There is no hard and fast rule here but VA offers a couple of HUGE advantages over conventional financing.

The First Advantage is there is often no down payment required up to certain levels. This is huge for someone that does not have the liquidity for a down payment or prefers to leave their money in their investment and savings accounts.

This option is available for many veterans. This zero down payment option is not possible with any other product with FHA or conventional financing.

A second HUGE advantage to the VA mortgage in today's mortgage marketplace is interest rate. Today's rates can be .25% to .50% lower when compared to conventional financing and that can save tens of thousands of dollars over the life of the loan which could be steered towards savings or your retirement accounts.

For example, in San Diego, a $400,000 purchase with zero down gives you a better interest rate than a conventional loan with a 20% down payment. The VA benefit allows you to save money over the life of the mortgage and get you setup with your home loan at the lowest possible cost to you.

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What is a certificate of eligibility (COE)?

At the start of your VA mortgage process, you'll need a certificate of eligibility. The certificate of eligibility is just like it sounds. It means you are eligible for a VA loan and this certificate is issued by the VA. You can access it online through what is called the VA web portal or your VA lender can get it for you. It will show you have "no VA use" which means you haven't used your VA benefit, or to use the proper term, your VA entitlement.

This will also show whether you are exempt or non-exempt for the funding fee. This document clearly states your funding fee exemption status. I will discuss the funding fee in detail in future pages of this guide.

You may have had a previous VA loan and when you paid it off, it is called restoring the benefit. Sometimes when the loan is paid off, it doesn't get cleaned up. For example, someone buys a home 25 years ago but only kept it for two years. Someone didn't restore the benefit. This can cause a delay in your new transaction so you and your lender will want to work to clean this up. An experienced professional in the mortgage business can direct you on how to do that.

TIP:

Find an experienced VA lender. The lender will get your certificate of eligibility for you so you don't have to do any work. The VA certificate of eligibility says that they will guarantee this loan.

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What documentation do I need to get started?

Besides the certificate of eligibility, you will also need to provide other documentation. This documentation proves who you are, will clearly show your income and your assets.

Here is what is most often needed to get the process going:

- Pay stubs or LES
- W-2s for last two years
- 1099s for last two years
- Federal tax returns for last two years
- Last two months bank statements
- Last two months investment accounts
- Drivers License
- Social Security Card

TIP:

Self-employed applicants will need to provide either K-1s or business taxreturns.

Absolutely essential for an active duty veteran is a statement of active service. Lenders lean hard on this as proof stating exactly where you are at with pay, rank and/or grade.

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When you signed your contract, this statement outlines:

- When your contract came into effect
- When it's due to expire
- All the different pays*

** Many on active duty often reflect their different pays such as parachute pay, demolitions pay and the different pay in a combat zone.*

TIP:

If you have less than 12 months on your current contract, the lender will want to know you've already got a job lined up. They will want to see the offer letter, contract, etc. It can be difficult to get a VA loan in the last year of your contract, unless the lender knows your income for when your contract is finished.

To prove your assets, you'll need to prove where your money sits: bank accounts, checking, savings, investment accounts, etc. Present all the information of where your money is residing to your lender.

TIP:

If you are using your overdraft on your checking account, talk with your VA lender. This can be a problem with getting your approval completed. Be alert for things that don't look good to someone evaluating your assets.

Lastly, you'll need to prove who you are with your Social Security card. If you don't have one, get one.

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What types of property can I buy with a VA home loan?

With a VA home loan, you can purchase just about any type of property.

- Single-family residence (a detached home)
- Town home
- Attached home
- Condo
- Manufactured home

Note:
When purchasing a condo, the condo development or the HOA (homeowner's association) must be VA approved. Check with your mortgage lender.

The mortgage lender finds this information on the condo association or HOA on the VA portal. You will not be approved for a loan if the VA does not approve the condo development or HOA.

Why are condos different?

There is a different risk level and different issues with condos vs. a single-family residence. With a single-family residence, you own the property and the actual structure, there's less risk for the lender. With an HOA or a condo association, there are many common areas. These common areas are the responsibility of the HOA or condo association. When you go through the approval process with the VA, you should ensure that the condo association or HOA is financially strong. If the condo association has major problems financially, this can put the VA lender and then the VA guarantee at more risk.

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What about home improvements?

You can use your VA loan for home improvements like adding solar power. The VA does allow these things to be included but it is very rare.

Alternatively, you can do a cash out refinance option. Refinancing means taking money out of the home, with the home equity. Many lenders allow you to go up to 100% loan to value for refinancing. How does this work?

If you owe $300,000 and want to do $50,000 worth of home improvement, the home must be appraised for $350,000. No other loan product comes close to this type of flexibility.

What type of home improvements can you do?

Here a few examples:

- Solar power
- Add square footage
- Add a room

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Can I use the VA loan to pay off debts plus a home loan?

There could be incentive, as in a buyer's market (lots of sellers competing), where they will offer up to three percent of the sales price. If it's a $400,000 home, the seller offers a $12,000 incentive to buy the home. With these seller concessions, you can use them to pay off consumer debt like a car loan or cover the closing costs.

Let me give you a real life example. I had a client that purchased a home and with the way the loan was structured the seller concessions of $6000 was above and beyond what we needed for the loan. In addition, the clients Debt to Income ratio was too high to get the loan approved.

This client had a car payment of $350 per month and by paying it off it effectively reduced the debt to income level where we could get the loan approved.

We took the extra $6000 and paid off his car and eliminated that debt! Just like that he was able to purchase the home! This is a very under utilized method of getting the loan to a place where it helps the veteran and gets him or her the home they want to buy.

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Down Payment
How much can I get with zero down?

This depends on where you live. Lenders will use this limit to go for zero down. Technically, there's technically no limit on the amount the VA will guarantee in a loan transaction but, zero down is the big number to aim for if you don't want to or can't make a down payment. Here are the 2017 limits for this in a few sections of the West:

Location	Loan Maximum with Zero Down
San Diego County, California	$612,950
San Francisco, California	$636,150
Denver, Colorado	$493,350

Does this mean I can't put a down payment on my house?

You absolutely can put a down a down payment! Like a traditional mortgage transaction, lenders are very happy to accept a down payment. This lowers the risk for the lender plus lowers your monthly payment. In addition, if you are non exempt from the funding fee it reduces that fee with 5% down and a larger decrease in putting 10% down.

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What if I want something more than the zero-down loan maximum?

If you want to buy a property that is higher than the zero-down loan maximum, don't panic. It doesn't mean you must put down a huge down payment. For example, the San Diego loan maximum for zero-down payment is $612,950 but say you found your perfect home for $712,950.

Does this mean you need a $100,000 down payment?

Absolutely not! Instead, you need only 25% of the difference. In our example that would be $25,000 vs. $100,000 and that VA mortgage could be yours.

What about mortgage insurance?

FHA or conventional mortgages, with small down payments require monthly mortgage insurance. Depending on your credit score in conventional or FHA and the amount of your down payment, you could be looking at $400-$500 per month in mortgage insurance.

This is such a huge advantage to the VA mortgage, There is zero monthly mortgage insurance!

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VA Loan Funding Fee

The funding fee is the money that goes towards the VA to support paying for this program. They employ people throughout the country to help veterans administer the process, get through it and answer their questions. Those salaries are paid with the funding fee.

The funding fee varies based on a few factors:

- Transaction type
- Purchase or refinance
- Down payment amount*

**Purchases will consider a down payment. Refinancing does not require a down payment.*

Some veterans are exempt from this fee. This is clearly stated on your certificate of eligibility. If you're exempt, you're always exempt whether it's your first or your 15th transaction.

If you are not exempt, you will have to pay a percentage for the funding fee. For example, a $400,000 purchase as a first-time home buyer, you could pay 2.15% ($8,600).

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The funding fee does not have to come out of pocket at closing. We can simply add it to the loan amount. Rolling the funding fee into the loan does not affect the other dynamics of your loan.

Another option is to pay the funding fee with seller concessions (more on this later). While rolling it into your loan will affect your monthly payment but often it is advantageous to do that instead of coming out of pocket and dip into your savings or investments.

Should you even bother than with the VA if you are not exempt? Yes, it still can be benefit to use the VA with the zero down payment options and other flexibility a VA loan provides over a conventional loan.

What about disability ratings? How does it impact my VA loan?

Disability ratings have a direct impact on the funding fee.

10% or more disability rating, properly reflected within the military database, means you will be exempt from that funding fee. Check your certificate of eligibility document to confirm if you are exempt from the funding fee.

How does credit scoring work with VA loans?

To apply for a VA loan, you'll need an accurate credit report. The mortgage lenders look at the three credit bureaus: Experian, TransUnion, and Equifax. This is called a tri-merge credit report. Each credit bureau provides a different score. since there can be a 100-point variance between high and low on each report, your lender will take the middle score from the reports.

First, obtain your tri-merge report. Review and understand it completely with your mortgage lender. Often, there are errors in the reports. For example, bills that were paid off may still show as outstanding. Do everything you can to have the highest score possible. The higher your score, the better your mortgage rate. A 780 credit score is going to do much better in the mortgage world than a 640 score.

Once again, the VA is more flexible with credit scores. The VA will approve loans even in the 500 range. Even when you have been turned down everywhere else you still may be able to use the VA product with competitive pricing and rates. Check with a mortgage broker who can shop your loan to many different lenders. Often times different lenders have different rules which may allow you to get your loan approved. Many big bank lenders have tougher requirements where a broker could get the loan done.

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How can I clean up my credit report?

Make sure your credit report is accurate. If a bill is paid but still showing up as unpaid, get that cleared off your report.

Next, understand your available credit. What does this mean? If you have a $10,000 limit on two credit cards, make sure you have less than 30% used on each credit card. With a $5,000 balance on one card, it will lower your credit score. Bringing that balance down to $3,000 will increase your credit score.

Should I have a credit card? It is a misnomer to think that no credit card is better. Having no debts does not equal a high credit score. No debts equal no credit score and makes it nearly impossible to purchase a home even with a steady income.

Creating a credit history will build your score and it is wise to understand how the credit balance affects your credit score.

For example, if you have five different credit cards open, each with $10,000 available you then have $50,000 in available credit. You may think it would be good to close three of them. Instead, it can hurt your credit score because now you have less available credit overall. Work with someone who understands the credit scoring process because you might end up hurting your credit score instead of improving it.

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What kinds of information are needed to understand my credit?

When your lender pulls your credit report, they will review the following:

- Your information
- Your spouse's information (if married)
- Is everything accurate?
- What can we do to improve it?

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How long will the process take to clean up my Credit?

Hoping you can buy a place next month? Instead, with a little patience, you could save tens of thousands of dollars over the course of your mortgage by improving your credit score. Working closely with your lender, create a realistic plan to create or repair your credit score. It could be as long as six months to a year. While each case is unique, the ultimate goal is to get the best mortgage rate and terms.

TIP:

Do your homework. Make sure your credit report is as good as possible. Then work through a plan if you need to. Improving your credit will make your mortgage even more affordable.

Afraid of what your credit report might say? Get past the fear and make a plan to make it right. With patience and discipline, you can own a home of your own.

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Should I get pre-approved or pre-qualified?

While you may feel like your income is clear cut, a lender may look at it very differently. If your income includes extras like overtime or bonuses or commissions, the lender may look at differently and may not consider it. Lenders also look at self-employment very differently.

You may think, “Hey, I made $80,000 last year.” But according to a mortgage lender, they're only going to give you credit for $60,000 in a full underwriting. The lender uses your tax returns and pay stubs and they fully evaluate business tax returns. This is an area where many lenders fall short. They often don't calculate self-employed income correctly.

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What's the difference between pre-approval and pre-qualification?

Pre-qualification is when a lender simply runs your credit report, your income and how much you have for a down payment. A lender may even say you can qualify for a $400,000 purchase today but this may not be realistic.

Pre-approval is much more extensive. Full pre-approval includes income documentation, tax returns, and bank statements. There is an approval engine process called desktop underwriting or DU. This is Fannie Mae's approval engine. Pre-approval is essentially a full underwriting, a full analysis of your situation done electronically.

With your pre-approval completed, then you go out and confidently shop for a home. Your real estate agent will have much more credibility with your pre-qualification, pre-approval and desktop underwriting approval. The real estate agent can safely say “we can close this thing in less than 30 days”.

How does this help you? In a competitive market, your offer can be moved to the front of the line because the documentation is already in place. Your complete pre-approval helps you succeed where others fail because they didn't go through the full process.

Your pre-approval letter is sent to your real estate agent as well as you, the veteran. This letter shows you are pre-approved to a certain dollar amount and states that "we are confident we can close this transaction and close it quickly".

Another advantage of the pre-approval is the amount of stress removed from closing on your purchase. As the deal concludes, you start to feel the stress of moving plus making a big financial commitment. The last thing you want to do is provide more documentation. If it's all done up front, you can focus on the real estate, then the actual moving part of the transaction – not the financial part. It's already taken care of. Now you can just get to the business of moving.

By doing your homework up front like having your credit score built up and accurate, you can close things quickly. You'll have clarity and confidence to put this into action. Clarity on where you stand financially and with your credit, you have the confidence to move forward. You can get this done!

Warning:

Skipping these early steps can lead to big disappoint later. Shopping for a new home and going through that part of the process without having your pre-approval in place, you very well could hear the words, "The financing fell through." and you'll lose out on your new home.

What about closing costs?

There are always closing costs to consider when purchasing a home. These are costs resulting in the various moving parts of the transaction. You must pay people for work they do to complete the transaction. Closing costs could include (vary by area):

- Payments to the escrow company (if you live in an escrow state)
- Underwriting fee to the lender
- Origination fee paid to the loan person
- Notary
- Title Insurance
- Attorney fees
- Appraisal
- Credit reports
- Inspection fees
- Endorsements
- Recording fee with the county

These little, various fees happen throughout different aspects of your transaction. In the Western United States, they are escrow fees. An escrow's job is like a traffic cop. They make sure people are staying in the lane and doing the right things. Escrow companies are an impartial party to make sure only real fees are being charged and being paid properly. In the past, companies were charging bogus fees. The escrow companies have a fiduciary responsibility to ensure this does not happen anymore.

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What are impounds?

With a VA loan, you also have something called impounds. Your create an impound account to pay your property taxes and homeowner's insurance when they come due. With the impounds, you make a monthly payment to your lender for principal, interest, property taxes and insurance.

For example, once per year your homeowners insurance comes due. The lender will make this payment on your behalf. You won't have to set aside money to do it, the lender has done it for you.

What is a seller concession?

With the VA no down payment, there is what we used to call a VA no-no. There's no money out of pocket, no down payment, nothing. Someone pays the closing costs and the impound account number. But who is paying this? Someone must pay this money.

This is done with seller concessions. You, the buyer, say “I'm going to buy this home at full price, but the seller's going to give me $5,000 towards the closing costs.” Whatever the amount is, you can apply it to your closing costs.

Another option is to have your lender pay some of the impounds or closing costs. The lender can do this by giving you a higher interest rate. Why would you want to pay a higher interest rate? A slightly higher monthly payment by $20 - $60 could be more beneficial than having to come up with five, six, or even ten thousand dollars at the time of closing.

It is a balancing act with rate vs. money out of pocket. There is no standard right or wrong answer, it is truly up to the veteran to decide what works best for them.

What is a rate lock?

A rate lock is when you lock in the interest rate from that day until the loan closes. Why is this beneficial? This eliminates any worry about fluctuations. For example, if you lock in your interest rate at 4%, even if the market gets worse before you close on a property, you will still pay 4%. Even if the rate has actually gone to 4.25%. You're locked in.

TIP:

99% of the time you won't be able to change the rate if the market improves. But, at some point, you need to lock the rate. It is a commitment to the lender that says they are going to do this loan and this is the final interest rate.

Mortgage escrow can be 30 to 45 days and most lenders offer both terms. You can lock it at 30 days or 45 days depending on the situation but with a rate lock this eliminates any rate fluctuation during the transaction.

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Should I aim for 30 days or 45 days escrow?

This is very dependent on each situation and the way the market is trending. Don't pass up a good deal waiting for a potential great deal. If you know this works for you today, then do it today. Ensure you get with your lender to know that you can close on whatever time frame you and the seller agree to.

How do I know what my best options are?

I use an industry leading software tool called The Borrow Smart Analysis software. This shows a side-by-side comparison with three different scenarios. The comparison will show how it affects your monthly payment and your wealth over time. I would suggest you only work with a lender that has experience delivering this type of analysis so you can fully understand the financial impact of your home purchase.

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Maintenance Money & Residual Income

Residual income is a VA calculation and is basically your budget. This is your gross income minus Social Security tax, federal tax, state tax and your debts as well as living expenses. Your lender wants to make sure you've got enough money to pay the bills. Pay special attention to this if you have quite a few children and your debt-to-income ratio is high.

Another key piece of this calculation is your maintenance costs. This is calculated by the square footage of your home. Multiply the square footage by 14 cents to determine your monthly maintenance costs.

If you have lots of residual income, you could take on a higher housing payment but your maintenance costs could push you out of loan approval. An example of this was when a family was looking at a 1,000 square foot condo bumping up against the residual income limit. Instead, they opted for a 2,000 square foot place. They got turned down because of the higher maintenance costs with the larger square footage. Remember the calculation above.

Do not give up if your debt-to-income ratio is too high. Look for ways with the VA program to make it work and affordable for your home ownership.

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What about a VA appraisal?

The VA appraiser is looking for minimum property requirements. They are going to make sure it's safe, sound, and sanitary. They make sure there is a railing on the stairwell, no safety issues in the backyard, there is not paint chipping on the inside and all the appliances are attached and still in the home for example. These are just a few of the items they will evaluate.

The main question the appraiser asks, “Is this safe for the veteran and sound for the veteran and sanitary enough for the veteran to move in?” These are minimum property requirements.

What about a pest inspection?

A pest or termite inspection is required by the VA in infestation zones. The VA requires termite clearance from a licensed termite company, signed by both the buyer and the seller.

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Waiting Periods

A waiting period is required if you have a short sale, bankruptcy or foreclosure in your past. If you've had a foreclosure, you're going to have to wait two years from when the foreclosure completed, before you can buy another property. You cannot start any paperwork until the day after the two-year anniversary.

A short sale has more flexibility; there's no set date within the VA. If you've been given approval with your desktop underwriting, you could move forward. Consult with a mortgage professional as early as possible in these instances.

Bankruptcy: Chapter 7 or Chapter 11 bankruptcy has a two-year waiting period (from the discharge date). Chapter 13 bankruptcy means waiting until you're finished making all the payments or possibly even sooner. No matter which type of bankruptcy, make sure you have all the documentation from your bankruptcy to give to your lender.

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Maximizing the Value of Your VA Using Your VA Multiple Times

As long as it's been restored (i.e. paid off or paid back via a refinance), you can use your VA as many times as you want, including for refinancing. Say you buy your house this year and then next year the interest rates come down. With refinancing, you pay off one VA loan to get the next one. Those things can happen concurrently.

It is rare, but you can even own more than one home with the VA. While it's unusual, especially in a higher cost of living area but it can happen. Cases where this was successful were in lower cost of living areas and the VA balances were low.

Reducing Interest Rate

If you're not taking cash out but want to reduce your interest rate, you can use a VA IRRRL. This is an interest rate reduction refinance loan. If you are not exempt from the funding fee, it's only 0.5%. Often, you can use the lender rebate discussed earlier to pay this fee.

Another advantage of the IRRRL is that an appraisal is not required. It's very low-cost option with very low documentation required. A new credit report is necessary but you do not have to provide income documentation. If there's no close-out money required, you do not have to provide asset documentation either. Even if you originally had a conventional mortgage, you can refinance with a VA loan but this type of mortgage does require documentation and full qualifying.

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Understanding the VA Handbook

The VA Handbook outlines all the underwriting rules but the lenders also have their own rules. The lender may require two years of tax returns while the VA only requires one. When the bank has different rules, it's called a lender overlay. This is where using a mortgage broker to shop around for the best pricing and most effective qualifying rules for you helps you complete the transaction.

Obtaining a VA Loan While Deployed

It is possible to get your VA loan while deployed if you're paperwork is in order. What paperwork do you need? A general power of attorney (POA) while you are deployed is for your loved ones or caretakers to use in case they need to sign or do any kind of legal work while you are deployed. Real estate often requires a specific POA.

The specific POA has to say “This power of attorney is for 123 Main Street, for this purchase price. Here's the lot number.” It can be more challenging to complete your VA loan while you are deployed but it can be done.

Communication access is very important too. While the transaction is in process, you should be able to communicate with the lender and the person with the POA. This is to make sure the lender can get exactly what they require to complete the transaction.

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Is it worth it?

Armed with the right information to talk to your mortgage specialist or broker, it is absolutely worth pursuing a VA loan. It may seem like a lot of work but if you do your homework, understand a little better the mortgage process and work with a mortgage professional, you can own your own home.

Follow these simple guidelines: making sure you pay your current bills on time, don't get too leveraged and put a few dollars in the bank. It is absolutely possible for you to buy a home, even in a higher cost of living area.

I want to thank you for downloading and reading this guide and please call me with any questions. I am happy to help you in any way that I can. I am forever grateful for your service to our country and I am here for you!

Respectfully,

Todd Swanson

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