



PCSgrades

GUIDE TO GETTING A HOME LOAN



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So, you're considering buying a home! Whether you've applied for a loan before or you are brand new to home buying, there are plenty of factors to consider before making the significant decision to purchase a home.

Luckily, you now have access to PCSgrades, a community of military and veteran families and reputation based real estate professionals dedicated to sharing information and making this process a lot less stressful and a lot more transparent. Here are a few insights and tips when considering the purchase of a new home.

Why should you buy a home?

Buying a home is a BIG decision! Whether you feel like you're tossing your money away in rent or just can't find a rental that meets your needs, home ownership might be a viable option for you. Buying a home allows you to own an asset that can grow in value and one you can truly make your own according to your family's wants and needs. While owning a home does come with responsibility, with the right planning it can be a truly rewarding experience for your family and your pocketbook.



What types of loans are available?

The most common types of loans are Conventional, FHA and VA Loans. All loans require proof of income, at least average credit, and some form of payment up front (such as earnest money and/or down payment).

Conventional

This is a common type of home loan/mortgage, and one certainly available to military and veterans. The rates are usually competitive and a down payment of at least 5% of the purchase price (3% for first time home buyers) will be required up front. Conventional loans must adhere to the guidelines of the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae), and are often tougher to qualify for than VA or FHA loans.

If your down payment is less than 20% of the purchase price, Conventional Loans require you to pay extra for Private Mortgage Insurance (PMI), which protects the lender against possible foreclosure. PMI can be paid a variety of different ways – monthly payments, up front with points, through a higher interest rate, or a combination of a slightly higher interest rate and monthly payments. PMI is automatically dropped once you pay down to 78% loan-to-value (LTV) and a borrower can petition to have it dropped at 80% LTV.

The Conventional Loan is also a great option if you are purchasing a condo that is not in a VA approved building, a vacation property, or an investment property. The annual percentage rate charged to borrow money will change based on your credit history and is typically slightly higher than a VA Loan.

FHA

The FHA loan is often easier to qualify for than a Conventional Loan and only requires 3.5% of the loan amount as down payment unless purchasing over the FHA county limit. These loans are insured by the Federal Housing Administration (FHA) and will allow

you to finance the Mortgage Insurance Premium (MIP, discussed below) into the loan amount. The FHA loan also has maximum loan amounts that vary depending on your location.

FHA mortgage rates are normally slightly lower than the market average and must meet the FHA mortgage guidelines. FHA charges two kinds of mortgage insurance; a Mortgage Insurance Premium (MIP) and monthly Private Mortgage Insurance (PMI). MIP is a one-time fee paid at closing and is 1.75% of the base loan value (purchase price – down payment). This amount can be added to your loan value. There is also a monthly PMI premium, which is .85% of the loan value divided by 12 months for the monthly payment calculation. If your down payment is 10% or more, monthly PMI will automatically terminate after 11 years. In all scenarios with less than 10% down payment, PMI must be paid for the life of the loan or until you refinance.

FHA Loans are intended for your primary residence, so they are not a viable option if you don't intend to live in the home you are purchasing.

VA Loan

The VA Loan is the most common type of loan for military and veteran families. It was designed specifically to assist our military members, veterans, and surviving spouses with the dream of home ownership and comes with some significant advantages. In 2016 alone, over 700,000 home loans were guaranteed by the Veterans Administration. Since this veteran benefit was created more than 70 years ago, some 22 million veterans have taken advantage of all the VA Home Loan has to offer.

VA Loan Benefits

Zero Down Payment

There are many benefits to using the VA Home Loan program. One of the most popular and widely known is that you can get a home loan with no down payment. It often takes people years of saving to get the required down payment when using a traditional home loan. This benefit alone can make the difference in whether someone becomes a homeowner or is left waiting for that elusive “when the time is right.” However, it’s important to note that if you have previously used the VA Home Loan Program without fully restoring your (entitlement) benefit, you may be required to provide some amount of a down payment.

To be clear, “zero down payment” should not be confused with “no money down.” Regardless of how much the homebuyer brings to the table in the form of a down payment, there are still closing costs that must be covered to purchase a home. In short, there will always be some expenses the homebuyer must pay for at the closing table.

Competitive Interest Rates

The interest rate on a VA Loan is very competitive. Though the loan is made through a private lender, it is backed by the U.S. Government, so interest rates tend to be lower than a conventional mortgage.

There isn’t a mortgage out there that doesn’t have fees and closing costs. However, the Veterans Administration places limits on how much military veterans can be charged when it comes to these expenses and some of these fees must be covered by other parties in the home sale transaction, and all of which is dependent on the state you’re buying in. Check with a VA lending specialist to make sure you understand how this applies to your unique situation.

No PMI/MIP

Not having to purchase PMI or MIP is another huge upside to using a VA home loan. Private mortgage insurance or PMI typically costs between .01% and .05% of the home’s purchase price each year.

So, someone who purchases a \$300,000 home with less than 20% down and a 1% PMI would pay approximately \$1,000 a year or just over \$83 a month.

Using a VA Loan will require a funding fee, which can change or be eliminated depending on a few key factors, such as 1) how much money you place as a down payment 2) if you have a Disabled Veteran Status from the VA 3) or if you are the recipient of a Purple Heart while still on active duty. All lenders listed on PCSgrades.com will be able to answer further questions about VA funding fees. Often, if there is a funding fee, it can be rolled into the loan, allowing you to bring even less money to closing.

Blue Water Navy Act

As of January 1, 2020 the following changes to the VA Home Loan Program were enacted into law as part of the Blue Water Navy Act.

- There is no longer a federally-mandated cap on the entitlement (loan) amount to obtain a no-down payment home loan. However, loans are still subject to the policies of the lender, which may limit the amount the lender is willing to loan. Entitlement amounts can also be constrained if you have previously used the VA Home Loan Program and not fully restored your benefit.
- Purple Heart recipients currently serving on active duty are exempt from the VA Home Loan funding fee. Previously, this benefit was only available to veterans with a VA Disability Status.

S-T-R-E-T-C-H

Flexibility is one of the great advantages to the VA Home Loan. Homeowners can sell or refinance at any time without having to pay a prepayment penalty or early-exit fee. And it is one of the few loans out there that can be “assumed.” However, it’s important to note that if the loan is assumed by anybody other than a VA Loan-eligible homebuyer, the assumed loan amount will restrict the available VA entitlement amount for the homeseller when they are considering the purchase of their next home.

The VA Home Loan is a Lifetime Benefit!

The VA home loan is not a one-time benefit. It can be reused over and over again, and it's possible to have more than one active VA loan at the same time.

Is the VA Loan right for you? - Eligibility

There are VA Loan eligibility requirements for both the buyer AND the type of property you are buying.

Who is eligible?

- Active Duty
- Guard/Reserve
- Veterans
- Retirees
- Surviving Spouses
- Public Health Service Officer
- Officer of the National Oceanic & Atmospheric Administration
- Cadet/Midshipman of the U.S. Military, Air Force, Naval, or Coast Guard Academy

To determine if you are eligible, visit www.va.benefits.gov, or speak with a PCSgrades lender who can usually get you an answer in minutes.

Also remember, just because you're eligible for VA benefits, doesn't mean you qualify for a mortgage loan. Your financial situation will ultimately determine whether you qualify to take advantage of this benefit.

What properties qualify?

- Single Family Homes – Meaning your primary home...not a vacation home or investment property, although there are some exceptions. For instance, the service member may not need to reside in the home if they are deployed or for other very specific circumstances
- Condominiums in VA approved buildings
- Planned Urban Developments (such as a subdivision with a small association fee)
- Multi-unit residential (up to 4 units)

Where to start?

There are some things you can do to make the pre-approval process move quicker. We recommend doing the following BEFORE YOU PICK OUT A HOUSE.

1) Figure out your income.

Pay statements for you and/or your spouse for the past few months will be required for any type of mortgage. Income can include salaries, pensions, rental income, commissions, alimony, child support, VA disability, etc. Documentation for all your income (to include bank statements for all your accounts) will be crucial in determining how much you qualify for as well as getting pre-approved for a loan.

2) Check your credit!

Use one of the many free websites to check your credit score! Whether or not you will qualify for a loan and getting the best rate possible will depend on your credit. It's much better to check your score and find errors, omissions, or black marks beforehand, rather than find out from a lender they can't fund your dream home. If you do find a spot on your credit, you can often work to dispute or remove any errors and improve your credit score before applying for a loan. This could save you thousands of dollars over the life of your loan!

3) Calculate your debt!

What you owe and the amount of mandatory payments you make every month will directly impact how much you can borrow towards the purchase of your home. Your debt will include credit card payments, other mortgages, alimony, and car payments (but not rent). This will impact your debt-to-income ratio, which we'll discuss below.

4) Talk to a PCSgrades.com "A-Graded" Mortgage Lender!

You should be able to go to any mortgage lender or bank and get the ball rolling to get a Pre-Approval letter, which is usually required in order to make an offer on the house. Finding the right mortgage lender, out of the thousands of banks and lenders who are fighting for your attention, is not always easy. Why not work with a lender who's been rated and reviewed by fellow military families? PCSgrades.com has lenders nationwide who have experience working with military and veteran families securing VA or Conventional Loans.



What can I afford?

Having a good idea of what you can afford up front can greatly impact your home search. There are several factors that go into this important decision.

Debt-to-Income Ratio

Every lender will look at your debt-to-income ratio to determine how much they will approve for you to borrow. This is fairly straight-forward to calculate. Take your total monthly debt (projected mortgage payment, other mortgage payments, credit card payments, alimony, car payments, etc.) and divide that total by your total income (pension, salary, commissions, wages, rental income, etc.).

Example:

Debt: Projected Mortgage Payment, including taxes, insurance, and HOA dues (\$1,400) + Monthly Minimum Required Credit Card Payment (\$200) + Car Payment (\$400) = \$2,000

Income: Gross/Before Tax Wages (\$6,500) = \$6,500

Debt (\$2,000) / Income (\$6,500) = 31% DTI (debt-to-income ratio)

***NOTE:** When considering how to account for rental/investment property debt and income, seek the counsel of a qualified mortgage lender.

Just because a lender can approve a loan for higher debt-to-income ratios...doesn't mean you ought to. Typical maximum debt-to-income for Conventional loans is 45% and with VA or FHA it's a bit higher (although there is not a formally established debt to income requirement through the VA). **HOWEVER**, according to the Consumer Financial Protection Bureau, your debt-to-income ratio should be below 43%. This ratio is meant to determine how much you can afford on a monthly basis and to ensure you'll be able to make the payments.

How do I calculate my mortgage payment?

This is fairly important in finding out how much you can afford as well as for your personal budgeting. Normally, you can find an online mortgage loan calculator (such as... <http://www.mortgagecalculator.org>) that will allow you to enter:

1. Cost of the house (minus any down payment)
2. Annual interest rate of the loan, the length of the loan (typically 30 years)
3. Annual Property Taxes
4. Annual Homeowners Insurance
5. Private Mortgage Insurance or Mortgage Insurance Premium
6. Homeowners' association fees (if applicable)

Once you've input these values, you should have a good idea of how much your monthly mortgage payment will be, and hence, how much home you can afford.

Personal Budgeting...aka Affordability

With all this information, you should know how much you can borrow. Please keep in mind that just because you CAN be approved for a \$350,000 home doesn't mean you SHOULD buy that large of a home. It's very important to go over your personal and family budgets, costs, savings, etc., to determine what price of a home will actually work for you. Buying the most expensive home you can afford might stretch you very thin and not allow for other things you'd like to budget for. Affordability is really a personal definition, based on your personal lifestyle and taking into account things like vacations, eating out, emergency expenses, savings, retirement plans, etc.

Closing Costs

Every home purchase will have some upfront costs associated with the transaction, such as down payment, Earnest Money (which can range anywhere from a few hundred dollars to 1% or more of the purchase price depending on location, purchase price, and the current market), Home Survey Cost, Title or Deed Preparation, Home Inspection, VA Funding fees, State/county transfer taxes, and Lawyer or Title Company Fees. There is no set amount for closing costs, as they differ with each transaction. Your PCSgrades "A-Graded" Mortgage Lender and "A-Graded" real estate agent will certainly help you calculate what closing costs to expect for whatever home you're considering.

Closing Cost Help

Look for a discount! There are often programs available through mortgage lenders or real estate agents that can help offset your closing costs. Some of the mortgage lenders reviewed on [PCSgrades.com](https://www.pcsgrades.com) offer promotions and discounts off closing costs (depending on loan amounts, types, and other unique factors) for PCSgrades members who close a home loan through them. These lenders can also discuss state-specific programs that may be beneficial to your situation. Every transaction with a real estate agent found through [PCSgrades.com](https://www.pcsgrades.com) will also earn you \$350 to \$7,500 after closing on the home (in states where allowed by law). *

Negotiate closing cost help! Aside from lender and real estate agent rebates, often you can negotiate with the seller to cover some (if not all) of your closing costs. With VA Loans, there are certain closing costs buyers are NOT ALLOWED to pay, but you may always ask the seller to cover some of the closing costs when you submit your offer on the house. Any of the real estate agents found through [PCSgrades](https://www.pcsgrades.com) will help you with this in your negotiations.





Research and find information on [PCSgrades.com](https://www.pcsgrades.com)!

PCSgrades provides our military and veteran families information about real estate and relocation services like never before, through trusted insights and reviews on the toughest must-solve problems. Our free service includes off-base neighborhoods, base housing, real estate agents, mortgage lenders, apartments, schools, moving companies, and more. Reviews are submitted by military and veteran families and you choose a professional, neighborhood, or service based solely on advice from the people we trust the most...our fellow military families.

**Together, we can truly
make a difference!**



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