

**MODULE #11 LOAN GUARANTY**

**DATE STARTED:** \_\_\_\_\_ **LOCATION:** \_\_\_\_\_

**SERVICE OFFICER/TRAINEE SIGNATURE:** \_\_\_\_\_

**TRAINER SIGNATURE:** \_\_\_\_\_

**DATE COMPLETED** \_\_\_\_\_

**I. Please rate the effectiveness of this training module.**

<b>Objective</b>		<b>Acceptable</b>	<b>Marginal</b>	<b>Unacceptable</b>
Gain knowledge of how an eligible veteran or other eligible person may obtain a VA loan.	Objective Achieved			
	Applied objective content through practical exercises			
	Effectiveness of teaching methods used			
<b>Objective</b> Knowledge of types of Home eligibilities.	Objective Achieved			
	Applied objective content through practical exercises			
	Effectiveness of teaching methods used			
<b>Objective</b> Knowledge of referral programs for non-qualified and un-remarried surviving spouses.	Objective Achieved			
	Applied objective content through practical exercises			
	Effectiveness of teaching methods used			
<b>Objective</b> Knowledge of forms necessary to apply for eligibility pertinent to each situation.	Objective Achieved			
	Applied objective content through practical exercises			
	Effectiveness of teaching methods used			
<b>Objective</b>	Objective Achieved			
	Applied objective content through practical exercises			
	Effectiveness of teaching methods used			
<b>Objective</b>	Objective achieved			
	Applied objective content through practical exercises			
	Effectiveness of teaching methods used			
<b>Objective</b>	Objective achieved			
	Applied objective content through practical exercises			
	Effectiveness of teaching methods used			

**MODULE # 11 CONTINUED**

<b>Objective</b>		<b>Acceptable</b>	<b>Marginal</b>	<b>Unacceptable</b>
	Objective Achieved			
	Applied objective content through practical exercises			
	Effectiveness of methods used			
<b>Objective</b>				
	Objective Achieved			
	Applied objective content through practical exercises			
	Effectiveness of methods used			
<b>Objective</b>				
	Objective Achieved			
	Applied objective content through practical exercises			
	Effectiveness of methods used			

**SUBJECTIVE EVALUATION**

		<b>Good</b>	<b>Fair</b>	<b>Poor</b>
<b>1. Please rate the extent to which you met your personal objective for this module</b>				
<b>2. Rate the information provided in the Training Manual &amp; other reference materials</b>				
<b>3. Please evaluate the physical environment where the training was held.</b>				
<b>4. Is there anything that we could have done to make this training better for you? (Please comment)</b>				

# Training Module 11

## LOAN GUARANTY

**Objective:** To learn how an eligible veteran or other eligible person may obtain a loan to buy, build, or improve a home under VA's Loan Guaranty program.

### References:

Title 38, U.S. Code, Chapter 37.

38 Code of Federal Regulations, Part 36.

VA Pamphlets: Federal Benefits for Veterans and Dependents

26-4, VA Guaranteed Home Loans for Veterans

26-6, VA To the Home Buying Veteran, A guide for Veterans planning to buy or build homes with a VA loan.

26-71-1, Questions & Answers on Manufactured Home Loans for Veterans

26-69-1, Questions & Answers on Specially Adapted Housing and Special Adaptations for Veterans.

26-93-1, VA Direct Home Loans for Native American Veterans living on Trust Lands.

**Instructions:** Study the assigned reference materials to learn how to assist veterans or other eligible persons file for benefits under the Loan Guaranty program.

**Summary:** The Department of Veterans Affairs (VA) will guarantee loans to be used for the following purposes:

- To buy a home (including a townhouse or a condominium unit in a VA-approved project);
- To build a new home;
- To repair, alter, or improve an existing home
- To refinance an existing loan (including an existing VA loan to reduce the interest rate);
- To buy a manufactured (mobile) home and/or lot;
- To buy and improve a lot on which to place an already-owned and -occupied mobile home; or
- To refinance a mobile home loan in order to acquire a lot.

VA-guaranteed loans are not available to buy a farm (unless the farm includes a farm house which will be personally occupied by the veteran or eligible person as their home), or to buy a business. Financing for these may be obtained through the U.S. Department of Agriculture (USDA), Farmers Home Administration and the U.S. Small Business Administration (SBA), respectively, both of which give preference to veterans.

Except as noted below, VA does not actually make the loan; rather, VA guarantees a percentage of the loan value, thereby reducing the risk to the lender. The actual amount of the guarantee varies according to the total amount of the loan, the value of the property involved, and whether the veteran has previously used any of his or her loan guaranty entitlement. The amount of the loan may not exceed the reasonable value of the property. If both spouses are veterans and each has loan guaranty entitlement available, their separate entitlements may combined to obtain a greater guaranty amount.

VA will make direct loans under certain circumstances to eligible Native American veterans to buy, build, or improve a home on Native American trust (tribal) lands. The maximum loan

# Training Module 11

amount is equal to the Freddie Mac conforming loan limit for a single-family home. VA may also make direct loans to eligible disabled veterans who qualify for the Special Adapted Housing grant, to help cover the difference between the amount of the grant and the cost of the housing unit. In this case, the maximum loan is \$50,000.

The veteran or other eligible person must meet all of the credit-worthiness and the other usual and customary requirements of the lending institution, as well as making the down payment (if any) and paying the normal and reasonable closing costs. There is also a funding fee, which may be either paid separately or included in the loan; this fee varies according to the amount of down payment made. If the veteran is in receipt of service-connected disability compensation or is entitled to compensation but for the receipt of military retired pay, the funding fee is waived. Interest rates are negotiable. The length of the mortgage and repayment plan depends on the specifics of the loan, including the amount and purpose and the particular lender. In general, the maximum length of the loan term is 30 years and 32 days; the repayment plan may be a fixed-payment, a graduated payment, a "buy down," or a growing equity mortgage plan. If the loan is to build a new home, VA will require the builder to offer a warranty against construction defects; however, VA has no enforcement authority in such cases except to suspend the builder from future participation in the Loan Guaranty program.

For qualifying service, veterans who served during any wartime period from World War II or later (except for the Persian Gulf Conflict) must have served at least 90 days of active duty and have been discharged under honorable conditions. Veterans whose service was entirely during peacetime periods July 26, 1947 to June 26, 1950; February 1, 1955 to August 4, 1964; or May 8, 1975 to September 7, 1980 (if enlisted) or to October 16, 1981 (if an officer) must have served at least 181 days of continuous active duty and have been discharged under honorable conditions. In both cases, if service was less than the minimum specified time but the veteran was discharged because of a service-connected disability, the veteran may still be eligible for benefits.

Veterans whose service began after September 7, 1980 (if enlisted) or after October 16, 1981 (if an officer) and ended before August 1, 1990 must have completed 24 months of continuous active duty or the full period (at least 181 days) for which called or ordered to active duty, and have been discharged under honorable conditions. Eligibility may still exist if the veteran served less than the specified length of time, but was discharged because of a service-connected disability; or served at least 20 months and was discharged for the convenience of the Government; or served at least 181 days and was discharged because of hardship or reduction in force; or has been determined to have a service-connected disability of compensable severity. Veterans who served during the Persian Gulf Conflict (beginning August 2, 1990), have the same 24-month length of service requirement; however, the exceptions only require 90 days of active duty rather than 181 days. Current active duty service members require 90 days of continuous active service for eligibility. Certain members of the Selected Reserve and National Guard who are not otherwise eligible for Loan Guaranty benefits, who have served at least 6 years in the Reserves or National Guard and who continue to serve in the Selected Reserve, or have been discharged under honorable conditions, or have been discharged because of a service-connected disability, or have been placed on the retired list, or have been transferred to an element of the Ready Reserves other than the Selected Reserve, are eligible for VA Loan Guaranty benefits. Eligibility for these Reservists originally expired on October 28, 1999, but has now been extended to September 30, 2009.

# Training Module 11

Other persons eligible for VA Loan Guaranty benefits include the un-remarried surviving spouse of a veteran who died on active duty or who died of service-related causes; the spouse of any active duty service member who has been listed as missing in action or as a prisoner of war for more than 90 days; certain U.S. citizens who served in the armed forces of an Allied government during World War II; and persons who served as members of certain other organizations, services, programs, or schools. Veterans of World War I and members of the Reserves or National Guard whose only active duty was Active Duty for Training are not eligible for VA Loan Guaranty benefits. However, they may qualify for a veteran's loan under the National Housing Act loan program (FHA/HUD). The Veterans Benefits Act of 2003 provides that the remarriage of the surviving spouse after the age of 57 shall not bar eligibility for VA home loan.

Upon application, VA will make a determination of eligibility and entitlement and issue a Certificate of Eligibility, which the eligible person should present to the lending institution when applying for the loan (however, the loan application may be made before applying to VA). There is no time limit for using Loan Guaranty entitlement (except for members of the Selected Reserve, whose eligibility will expire on September 30, 2009). Once entitlement has been used it generally cannot be restored, except under the following circumstances:

1. If the entitlement limits have been increased since the previous loan was approved, the difference between the old limits and the new limits may be available for a new VA loan, even if the previous loan is not fully paid off; or
2. If the property has been sold and the previous loan has been paid in full; or
3. A qualified eligible person buys the property, agrees to assume the outstanding VA loan balance, agrees to substitute the same amount of his or her entitlement for the entitlement originally used to guarantee the loan, *and* the new buyer meets all of the occupancy, income and credit requirements; or
4. **One time only**—If the prior VA loan has been paid in full but the property securing that loan has not been sold or otherwise disposed of, the entitlement used in connection with that loan may be restored.

In each of these cases application for restoration of entitlement must be made by completing and returning VA Form 26-1880, *Request for Determination of Eligibility and Available Loan Guaranty Entitlement*, to the nearest VA office.

A veteran or eligible person may sell at any time the property on which a VA loan has been made. However, if the new buyer will be assuming the existing VA loan there are differing requirements, according to whether the original loan was closed before or after March 1, 1988. If the original loan closed before that date, the loan may be assumed without the approval of either VA or the lender; however, the veteran or eligible person who obtained the original loan will remain liable should the current or any future assumer ever go into default. This can be avoided by obtaining a release of liability from the VA office which guaranteed the loan. If the original loan closed on or after March 1, 1988, the loan cannot be assumed unless VA or the lender (or both) are notified, approve the assumer, and release the veteran or eligible person from further liability. The application forms are requested from the lender to whom the payments are being made.

# Training Module 11

## Review Questions: Loan Guaranty

Using the assigned references and reading materials, answer the following questions:

1. The Veterans Benefit Act of 2003 provides that remarriage of the surviving spouse after age 57 shall not bar eligibility for VA home loans? 11-3
  - a. Remarriage at any age shall bar eligibility.
  - b. In order to retain eligibility you have to be over the age of 57.
  - c. As long as you remarry within 5 years you still retain eligibility.
  
2. Which may a VA-guaranteed loan *not* be used for: 11-1, 11-2
  - a. To buy and/or improve an existing home to live in.
  - b. To buy a lot on which to place an already-owned mobile home.
  - c. To build an apartment building to use solely as income property.
  - d. To buy a farm including the farm house to live in.
  
3. The veteran was rated 100% since 1952 because of anatomical loss of both feet. He died when the car in which he was a passenger was struck by a truck. Is the surviving spouse eligible for VA Loan Guaranty benefits? 11-3
  - a. Yes, since the veteran was rated 100% since 1952.
  - b. Yes, because he was a passenger and the death wasn't a result of his actions.
  - c. No, because he didn't die on active duty, nor was the death service connected.
  
4. The veteran obtained a VA-guaranteed loan fifteen (15) years ago to buy a home. In January 1987 he sold the home to another person (not a veteran). Rather than refinance the loan, the new owner simply assumed the existing mortgage. After 6 years, the new owner stopped making payments, and the loan has gone into default. Is the veteran still liable for the loan? (30 year loan) 11-4
  - a. Yes the veteran or eligible person who obtained the original loan will remain liable should the current or future assumer ever go in default.
  - b. No since the new owner assumed the loan that made him responsible for it.
  - c. No since the loan was before March 1, 1988 it could be approved without the approval of either VA or the lender.

# Training Module 11

5. The cost of a VA-guaranteed loan includes funding fees, which may be waived if the veteran has a compensable service-connected disability(s). 11-2
  - a. The veteran must be rated as a 100%/IU veteran in-order for them to waive the fees.
  - b. It does not matter if you have a service – connected disability the fees are never waived.
  - c. If the veteran is in receipt of a service \_ connected disability compensation or is entitled to compensation but for the receipt of military retired pay, the funding fee is waived.
  
6. What is the time limit for using VA Loan Guaranty benefits? 11-3
  - a. Ten (10) years after separation from service.
  - b. September 30, 2009 for members or former members of the Selected Reserve.
  - d. There are no time limits for eligible veterans or other eligible persons.
  - e. Both b. and c., above.
  
7. If a husband and wife are both veterans, can they combine their separate Loan Guaranty entitlements? 11-2
  - a. No, only one of them may use their loan guaranty entitlement.
  - b. Yes, If both spouses are veterans and each has loan guaranty entitlement available, their separate entitlements may be combined to obtain a greater guaranty amount.
  - c. Yes, As long as both spouses are veterans and entitled to compensation for a service – connected disability.
  
8. VA will make a direct loan to eligible veterans under the following circumstances: 11-2
  - a. If there are no lenders available in the veteran's local area.
  - b. To a Native American veteran to buy or build a home on tribal lands.
  - c. If the veteran or eligible person does not meet the lender's normal requirements for a loan.
  - d. If several veterans go together to purchase a property.
  
9. For qualifying service, a veteran must serve \_\_\_\_\_ or \_\_\_\_\_ if enlisted after September 7, 1980. 11-2
  - a. 2 years/6 years
  - b. 2 years/181 days

# Training Module 11

- c. 90 days/181 days
  - d. 6 years/2 years
10. Even though a veteran has previously used the full amount of Loan Guaranty entitlement, under certain circumstances that entitlement may be restored. 11-3, 11-4
- a. No, you only get to use your Loan Guaranty entitlement once, after that you no longer have that entitlement.
  - b. Yes as long as the property has been sold you regain your full Loan Guaranty entitlement.
  - c. When entitlement limits have been increased, or if you sold the property and the previous loan has been paid in full your entitlement may be restored.

## FORMS

### **Veteran:**

DD-214

VA Form 26-1880, Request for Determination of Eligibility and Available Loan Guaranty Entitlement

VA Form 26-6381, Application for Assumption Approval And/Or Release From Personal Liability To The Government On A Home Loan.

VA Form 26-6382, Statement Of Purchaser Or Owner Assuming Seller's Loan

### **Surviving Spouse:**

DD-214

Death Certificate of Veteran

Marriage Certificate

VA Form 26-1817, Request for Determination of Loan Guaranty Eligibility- Unmarried Surviving Spouse

### **Reservist:**

VA Form 26-1880

Points Statement (showing Character of Service) or

Statement of Service from Commanding Officer or

NGB-22 (US Army) or

DD Form 256 & Points Statement

### **Information Sources:**

VA Loan Eligibility Center

251 North Main Street

Winston-Salem, NC 27155

Telephone: (888) 244-6711

Websites: [www.va.gov](http://www.va.gov)

[www.vba.va.gov](http://www.vba.va.gov)

