

# Get a HEAD START on Your HOME PURCHASE

## The Benefits of Loan Prequalification and Preapproval

**Uniform Residential Loan Application**

This application is designed to be completed by the applicant(s) with the Lender's assistance. Applicants should complete this form as "Borrower" or "Co-Borrower," as applicable. Co-Borrower information must also be provided (and the appropriate box checked) when  the income or assets of a person other than the Borrower (including the Borrower's spouse) will be used as a basis for loan qualification or  the income or assets of the Borrower's spouse or other person who has community property rights pursuant to state law will not be used as a basis for loan qualification, but his or her liabilities must be considered because the spouse or other person has community property rights pursuant to applicable law and Borrower resides in a community property state, the security property is located in a community property state, or the Borrower is relying on other property located in a community property state as a basis for repayment of the loan.

If this is an application for joint credit, Borrower and Co-Borrower each agree that we intend to apply for joint credit (sign below):

Borrower		Co-Borrower		Agency Case Number		Lender Case Number	
<b>I. TYPE OF MORTGAGE AND TERMS OF LOAN</b>				<b>II. PROPERTY INFORMATION AND PURPOSE OF LOAN</b>			
Mortgage Applied for: <input type="checkbox"/> VA <input type="checkbox"/> FHA		<input type="checkbox"/> Conventional <input type="checkbox"/> USDA/Rural Housing Service		Amortization Type: <input type="checkbox"/> Fixed Rate <input type="checkbox"/> ARM (type): <input type="checkbox"/> Other (explain):		No. of Units	
Interest Rate %		No. of Months		GPM		Year Built	
Amount \$		Subject Property Address (street, city, state & ZIP)		Property will be used for: <input type="checkbox"/> Primary <input type="checkbox"/> Investment		No. of Units	
Description of Subject Property (attach description if necessary)		Construction: <input type="checkbox"/> Permanent <input type="checkbox"/> Other (explain):		(a) Present Value of Lot		Year Built	
Description of Subject Property (attach description if necessary)		Construction: <input type="checkbox"/> Permanent <input type="checkbox"/> Other (explain):		(a) Present Value of Lot		Year Built	
Description of Subject Property (attach description if necessary)		Construction: <input type="checkbox"/> Permanent <input type="checkbox"/> Other (explain):		(a) Present Value of Lot		Year Built	



Veterans United<sup>TM</sup>  
Home Loans

**T**he VA Loan home program has helped more than 18 million veterans become homeowners since 1944.

These flexible, low-cost loans come with an array of significant benefits. Qualified borrowers can purchase a home with no money down and no need for private mortgage insurance. Loan volume has soared the last few years as more and more military borrowers discover the unmatched power of this program.

But fewer than 13 percent of the nation's 22 million veterans have utilized the home loan benefits earned by their service. Many service members don't know if they qualify for a VA loan or how to pursue one. Others aren't even aware they have these benefits.

One of the most common questions we see from future military homeowners is: "Where do I start?"

Prequalification and preapproval is the first step for first-time and even expert homebuyers. These important stages will help you determine whether you meet initial requirements and provide a clearer picture of what you can afford. Preapproval in particular inspires real estate agents and home sellers with confidence in prospective buyers.

Prequalification and preapproval can't guarantee you a loan. But they are important stages in the rewarding journey toward homeownership.

This guide aims to provide military borrowers with a closer look at each.



## Overview of VA Loans

VA loans are remarkable financing options for those who qualify. These powerful loans offer 100 percent financing and feature lower rates and less stringent requirements than conventional loans.

Let's stay by taking a look at the service requirements for VA loans:

<b>Make sure you've met ONE of these service requirements:</b>
• 181 days of service during peacetime
• 90 days of service during war time
• 6 years of service in the Reserves or National Guard
• Some surviving spouses of veterans who died while in service or from a service-connected disability may also be eligible

This isn't an exhaustive list of eligibility requirements. There are unique circumstances where veterans can be eligible for a VA loan after serving just one day. The only way to verify your ability to participate in the program is to obtain your Certificate of Eligibility (COE).

But you don't need your COE to start the loan process. In many cases lenders will obtain your Certificate of Eligibility for you further in the lending cycle. Loan specialists at Veterans United Home Loans can typically obtain your COE from the VA in a matter of minutes when the time comes.

Not everyone who has a VA entitlement will ultimately get a loan. The VA and VA-approved lenders have their own specific criteria that must be met before loans are issued.

# A Closer Look at Prequalification

Prequalification is a basic, barebones first step that accomplishes three broad goals:

- Gives the prospective borrower a broad estimate of purchasing power
- Tells the lender immediately if the veteran cannot obtain a VA loan at that time
- Lays a foundation for the underwriting process to begin once a contract is in place

Prequalification can help veterans get a feel for some of the general questions and issues they might need to address. But at this stage lenders are asking for ballpark information about your income, your overall financial health and the type of home you're looking to purchase.

Prospective borrowers can contact a lender and receive prequalification online or over the phone within minutes. Prequalification is not a required part of the home-purchasing process, but many borrowers find it helpful to have a more realistic idea of what they can afford before they start shopping for homes.

## Prequalification Talking Points

To determine if you can be prequalified, lenders will ask you a few questions, which will probably address these factors:

- ✓ Approximate credit rating
- ✓ Approximate value of the home you wish to purchase
- ✓ Income
- ✓ Debts
- ✓ Assets

## Why VA Prequalification is Important

By going through the prequalification process, a buyer can also identify and attempt to fix any potential financing or VA eligibility roadblocks.

For example, let's say you come to the Veterans United Home Loans website and fill out a form with some estimates of your credit rating, the prospective loan amount, when and where you plan to purchase and other initial information. Veterans who call us or any other lender will give the same basic information over the phone.

But most lenders will ask for permission to pull your credit score and get a look at the actual numbers. That's because bad credit can kill your chances of getting a VA loan right out of the starting gate. In the current lending climate, prospective borrowers with a score below 620 will struggle to secure financing.

In those cases, we will recommend veterans work with our Department of Secondary Approval, which helps military members develop a plan for free to repair their credit and get on the path to securing the loan they deserve.

## A Closer Look at Preapproval

While prequalification is a great first step, home sellers and real estate agents are much more interested in loan preapproval.

That's because, by comparison, it's a much more detailed and rigorous process that provides greater confidence for both buyers and sellers alike.

Preapproval is a more thorough consideration of your finances and your ability to handle a mortgage payment moving forward. If a lender grants you preapproval, you have a conditional commitment for a loan from that lender. But remember that preapproval is not a guarantee.

The home you select must also meet VA criteria, so it's impossible to receive any sort of "mortgage guarantee" at this stage of the process. Preapproval does take a more in-depth look at your finances, so it's a more reliable estimate of your eligibility than prequalification.

### Boosting Your Credit

Our Department of Secondary Approval (DSA) helps prospective borrowers develop a plan to repair their credit and get on the path to loan prequalification. This is a free service open only to military veterans, current service members and their families. You can learn more at the [Department of Secondary Approval](#) website or by calling 888-392-7421.

Even if your credit score checks out, a good loan officer will work to develop the conversation and look for major red flags that signal potential trouble ahead. Employment status, previous bankruptcies or foreclosures are common discussion points and potential red flags.

Lenders who notice problems with a borrower's credit, debts or employment status can generally make valuable recommendations.

#### Information that may be required in the preapproval process:

- ✓ Current pay stubs
- ✓ Credit report
- ✓ Tax returns and W2s
- ✓ Employment history
- ✓ Evidence of divorce and spousal support (if applicable)
- ✓ Bank/investment statements
- ✓ Evidence of other real estate assets

## A Look at Preapproval Factors

All of the information that you send to your lender serves a purpose. Your lender is looking for several qualities that will determine if you can be preapproved and how much of a loan you could receive.

Here's a more in-depth look at some of the major ones when it comes to VA loans:

### Credit

This is a make-or-break financial metric. Lenders will pull credit scores from the major credit agencies and look at the middle score as a barometer. They'll look for late payments, outstanding debts and other warning signs.

Late payments on previous mortgages, especially within the last 12 months, can be major red flags and even derail the preapproval process.

Bankruptcies and foreclosures can also prove problematic. Borrowers with a history of these can still secure VA financing. But there's typically a two-year waiting period before you can secure loan preapproval. If you're beyond that window, you can move forward, even if your previous foreclosure was on a VA loan.

### Debt-to-income ratio

In addition to combing through your credit history, lenders will also look at your debt-to-income (DTI) ratio. Lenders will calculate your total monthly debt, such as housing, loans, child support and other major outlays and divide by your total monthly income.

Lenders only consider "significant" debts in this calculation, which are generally those with a long-term obligation (10 months or more). But major short-term obligations that can severely impact a borrower's resources can also be included.

You want your DTI ratio to be as low as possible. The VA benchmark for DTI ratio is 41 percent. Prospective borrowers with a ratio greater than the benchmark have to meet additional financial requirements.

Example: Debt to Income Ratio Calculation	
Debts	
Mortgage payment	\$1,000
Auto loan	\$200
Student loan	\$100
Child support	\$100
Total monthly debt	\$1,400
Total monthly income	\$3,500
Debt-to-income ratio (\$1,400 divided by \$3,500)	40%

## Residual income

This is a financial standard unique to VA loans. Residual income is basically how much money you have left over each month after your major expenses.

The VA seeks to ensure that veterans have enough income to cover a family's everyday needs, such as food, health care, gasoline and other necessities. The residual income requirements vary by geographic region and family size.

Here's a look at the VA's guidelines:

VA Table of Recommended Residual Monthly Incomes by Region (for loan amounts of \$80,000 and above)				
Family size	Northeast	Midwest	South	West
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1,025	\$1,003	\$1,003	\$1,117
5	\$1,062	\$1,009	\$1,009	\$1,158
Over 5	Add \$80 for each additional member up to a family of seven			

For example, a family of four living in the Northeast would need at least \$1,025 available each month after paying the mortgage and other significant expenses. Veterans who fail to meet the residual income standard will be hard-pressed to get a loan.

Prospective borrowers with a DTI ratio above 41 percent must exceed their residual income requirement by 20 percent. That means our example family in the Northeast would actually need \$1,230 in residual income each month to satisfy the requirement.

## Employment Requirements

Lenders like to see that you have been reliably and consistently employed when considering your loan application.

The VA won't guarantee a loan if they feel a potential borrower's income is unreliable. Accordingly, lenders don't like to see short-term employment, long gaps in employment or income that varies drastically from month to month. The ideal borrower can show at least two years of consistent, full-time employment.

That doesn't mean you can't get a loan if you don't meet the two-year standard. Consider veterans who recently separated from the military and are heading into the civilian world. Underwriters can look at your current or pending job and any specialized training you have and consider it sufficient. It's often a case-by-case basis.

## When You Can't Secure Prequalification or Preapproval

Borrowers sometimes learn they can't be prequalified or preapproved. Again, being eligible for a VA home loan doesn't mean you get one automatically.

### The most common reasons for a denial are:

- ✓ Poor credit
- ✓ Debt too high
- ✓ Income too low
- ✓ Inadequate employment history

But you still have options in those cases.

Maybe you've figured out that the time isn't quite right for your home purchase. That's not a bad thing. Being fiscally responsible doesn't mean you have to own a home. In fact, if you're not financially prepared for the long-term commitment of a 15- or 30-year mortgage, buying a home can be the least sensible route to take.

Consider your situation and revisit the idea of buying a home at a later date. It's definitely possible that with a bit of work, a potential borrower can ultimately meet the criteria for a loan.

This can only be determined on a case-by-case basis, although there are several ways to improve your appearance as a borrower:

- **Improve your credit**

Credit is a growing issue of concern for homebuyers, and it can affect military borrowers even more than the average citizen. Frequent moves increase opportunities for bills and notifications to slip through the cracks. Add in deployments, training and other "calls of duty" and it can be a real challenge to maintain good credit.

Dispute blatant errors on your credit report and have them removed. Legitimate negative items on your report are a bit trickier to handle, but by strategizing and maintaining responsible habits, you can slowly rebuild your credit.

Fixing your credit takes time, but it's a vital step in the mortgage process. Your credit history is used in part to determine the interest rate that you'll pay on your loan. Borrowers with better credit can typically get lower interest rates, which can save you a lot in the long run.



- **Lower your debts**

If a lender sees you've recently taken out loans for a new car, a pricey engagement ring and a truckload of new furniture, your odds of getting a home loan are slim. Your paycheck only goes so far. Be picky about your purchases if you want to buy a house, and definitely don't make any during the loan process.

- **Think about income**

Income can be a tricky factor to adjust. Perhaps the loan you're aiming for is too lofty for your resources. Talk to your lender about your chances of qualifying for a smaller loan. Another common setback for applicants is that income is too inconsistent. Borrowers on a commission-based income or who are self-employed may run into this problem.

- **Employment history**

Military buyers in particular may have unique employment circumstances. Recently discharged veterans may have held a job for just weeks or months before deciding to pursue a VA home loan. Underwriters consider these employment scenarios on a case-by-case basis. Don't immediately panic if your employment history is a bit lacking. It can be helpful for prospective borrowers to talk with a VA loan specialist about their unique employment circumstances. Anything short of the two-year employment benchmark is generally a tough sell, but your particular situation may grant you an exception.

## What's next?

Loan preapproval likely means you're well on your way to becoming a homeowner.

Prequalification and preapproval can also provide great advantages to those who want to purchase a home quickly. Sellers prefer working with preapproved buyers, so they may be more willing to swiftly meet a qualified buyer's demands. And by getting a head start on the process, preapproved borrowers can often close on their home loan in a matter of days, rather than weeks or months.

Whether you choose to get started with either prequalification or preapproval, you'll see one key benefit from both: These options bring you one step closer to your dream home.



### Get Started Today!

A loan specialist can often prequalify you for a home loan in minutes. Call 888-212-1958 or visit [Veterans United](#) to learn more.