Department of Veterans Affairs

Pointers for the Veteran Homeowner

A guide for veterans whose home mortgage is guaranteed or insured under the GI Bill

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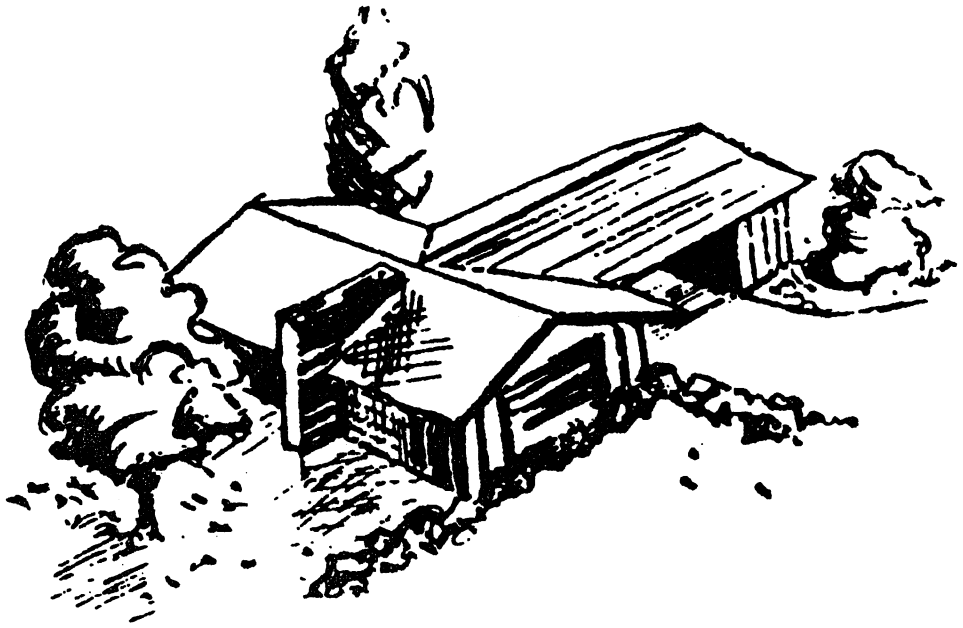
FOREWORD

In buying a home, you have made what may well prove to be the largest single financial transaction of your lifetime. Naturally you will want to protect your investment.

If you manage your affairs well, you and your family will be able to enjoy the use of your home through the years and eventually own it free and clear of debt.

The purpose of this pamphlet is to help you avoid making mistakes which may prevent you from achieving that goal.



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Protecting Your Home and Your Investment

Your Obligation Under the Terms of Your Mortgage

The note and mortgage (or other legal papers) which you signed to obtain a loan to assist you in the purchase of your home provide that you must perform certain duties. Your rights and responsibilities as the borrower as well as those of the lender are set forth in this pamphlet.

Some people refer to their monthly mortgage payments as "rent," but you must, at all times, remember that *you borrowed money* and your debt to the lender or holder of your mortgage makes necessary the repayment of your loan on certain dates and in certain amounts.

Repayment of the loan does not depend on your satisfaction with the property, any more than repayment of a personal loan would depend on the proper use of the borrowed money. You owe the money! It must be repaid in the manner agreed upon!

In all probability the mortgage contains a statement about "waste" or "impairment" under which you agreed to protect the property and keep it in good condition.

Your own self-interest and pride in your home will no doubt cause you to maintain your property satisfactorily. However, should you fail to keep the property in good condition, and if the mortgage so provides, the lender may bring legal action to foreclose the mortgage, even though you may not be behind on the monthly payments at that time.

On the other hand, the holder of the mortgage may decide to have any work done which is necessary to prevent waste of the property if you should fail

to do so, and then, if the mortgage so provides, may add the cost of the repairs to your mortgage debt.

Other Debts To Avoid

It is most important that you make the payments on your GI loan as they become due and otherwise meet the terms of the mortgage.

When you purchased your home, your GI loan payments were set at an amount which you could meet, based on your and/or your spouse's income and expenses. *Do not make the mistake,* after buying your home, of going deeper into debt to pay for items which at that time may be unnecessary.

Sometimes persons purchasing a home will buy items which are not essential or will make unnecessary improvements to their property and sign up to pay so many monthly installments that their income is not large enough to allow them to meet these extra bills, make the mortgage payment, provide for living expenses, and lay aside a reasonable amount to be used in case of possible emergencies brought on by unemployment, sickness, accidents, etc.

There is nothing wrong in buying luxury items on the installment plan, *if you can afford them.* However, you should not tie your income up so that the payments on such items become a burden.

Remember first of all that you are trying to provide your family with a good home. You have made a good start, which your GI loan made possible, and meeting the installments on the loan is most important. You must make sure that the payments on your home and ordinary living expenses can be paid regularly and promptly before you sign up to buy luxury items.

Almost every new homeowner will be visited by "live wire" salespersons and urged to purchase on the "easy payment plan" items which the homeowner "cannot afford to be without" and which "will pay for themselves."

It is not good judgment to agree to make payments over an extended period of months or years for laborsaving devices or other home improvements if by so doing the ownership or upkeep of your home is in danger. Therefore, it will pay to be careful of your expenses; get your feet on the ground financially and live within your income, even though you may be unable to "keep up with the Joneses."

The Builder's Responsibility

A newly built home should be complete and in good condition. However, when you move into your new home you may find certain items which have not been completed or are not operating properly. Make a list of these items and report them to the builder in writing. This should be done as soon as such conditions are observed. Most builders will agree to correct any defects caused by poor material or workmanship.

A builder is not generally responsible for correcting any damage caused by wear and tear after you move into your home. As the owner, it is your responsibility to keep the house in good condition.

On a new home inspected during construction by either the Department of Veterans Affairs or the Federal Housing Administration (FHA), the builder or seller must furnish the purchaser a construction warranty. This warranty will state that the home has been built in substantial conformity with the plans and specifications upon which VA's valuation was based. If the home does not conform substantially to such plans and specifications, written notice of any substantial deviations should be given to the warrantor (builder or seller) within a year from the date on which title was originally conveyed to you or on which you first occupied the home (whichever date was first). If the warrantor fails to remedy defective construction, you may bring an action at law against the warrantor. VA cannot do this for you. Although it in no way underwrites the quality of the construction, VA, however, may be able to help you in securing correction by the builder of defects for which VA determines the builder is responsible and which are deviations from the plans and specifications, if the builder fails to make such correction upon timely notice. As an additional safeguard, VA may pay or otherwise compensate for correction of structural defects seriously affecting livability which develop within 4 years of the time a home loan is guaranteed or made. There is no form for requesting this assistance. You should write in detail about the defect stating your request for assistance to the Loan Guaranty Officer of the VA regional office. The VA office will review your problem and advise you regarding any assistance which may be available. VA retains and makes available to the veteran a copy of the plans and specifications upon which its valuation was based for about 1 year following completion of the property.

Many builders offer extended warranties or protection plans which provide certain coverage for workmanship/materials, systems, and major structural components of a dwelling. Generally, these protection plans are a contractual agreement between the builder and the provider of the protection plan, with the homeowner receiving certain limited benefits. You should carefully read the "Insurance /Warranty" documents supplied by the plan provider, as those documents set forth the extent of coverage that may occur. VA's ability to help you secure the correction of construction problems by the builder of a home enrolled in a protection plan is limited to those homes inspected by VA or FHA and is generally limited to the one year warranty period discussed above. You are encouraged to inform the VA regional office of the final disposition of any complaint processed through a protection plan.

On a home which has been previously occupied, or did not receive VA or FHA inspections, VA usually is not in a position to help you obtain correction of defects discovered after your loan has been closed.

Protecting Your Investment

Whether you paid $40,000 for a modest cottage, or $250,000 for a large custom-built house, the protection of your investment will require that you keep your property in good condition.

For instance, a house of all-wood construction, as well as the wood or metal trim on a house of stone, stucco, or brick construction should be painted as often as necessary to (1) protect the wood or metal from rot or rust, and (2) retain or improve the appearance of the building.

Delayed roof repairs may be costly. Well-cared for yards, lawns, shrubs, flowers, driveways, and sidewalks show "pride of ownership."

While you may have no present intention or desire to sell your home, a property is more easily sold and will bring a better price, even in a neighborhood of similar houses, if the house is neatly painted and the grounds well cared for.

Also, it is to your advantage to keep the inside of your home in good condition. Particular attention should be given to the protection and maintenance of the heating and plumbing systems.

The expense for proper maintenance of your property should be given consideration in your family budget. Experience has shown that the cost of repair and maintenance is usually far less expensive than the cost of replacement.

The Property

Within a new home there may be sources of trouble which, if not initially checked, could lead to future major repairs. Some sources of trouble may be caused by natural characteristics of building materials which are not generally considered to be faults of construction. For example, minor adjustments may be needed as a result of the expansion or contraction of wood or concrete, or high humidity may cause water to condense on windows or walls. The next few paragraphs mention some sources of trouble and suggest methods of correction.

Dampness

Condensation which usually causes moisture on basement walls can be overcome by opening the basement windows when the weather is cool and dry. However, if moisture appears only in certain places on the basement walls or floor there may be a leak. You should notify the builder if this condition continues.

Whenever there is too much moisture in the warm air inside the house and it comes in contact with cold surfaces such as windowpanes, cold water pipes, and toilet tanks, condensation will occur. The use of clothes dryers, showers, dishwashers, gas ranges, furnaces, and humidifiers increases moisture in the air. Improved ventilation will reduce this moisture, but will not entirely stop it.

Any house with an enclosed crawl space instead of a basement will have screen vents in the wall for circulation of air. These vents should be left open to prevent dampness from rotting the wood above such space. However, if a vapor-barrier ground cover is laid over the ground floor of the crawl space, the vents may be reduced nine-tenths of their usual size and still allow sufficient air to prevent dampness.

Attic spaces also have air vents known as louvers which must always be kept open for the purpose of ventilation.

Drainage

The ground around the outside of a house should be graded in such a manner as to prevent dampness. Your lot should slope away from the house on all sides to allow proper drainage and to prevent water that is draining off other lots from standing on your lot. Water should not be allowed to stand next to a house because it will eventually seep through the foundation walls. When disturbing established lot drainage patterns by installing such items as new lawns, landscaping, patios, or planters, extreme care should be taken to maintain proper grades. To assure positive drainage at all times, periodic removal of silt and other obstructions from drainage swales and facilities is

required, and areas subject to settlement, wash, and erosion may require patching and replanting periodically.

Shrubs should be planted at least 3 to 4 feet from the house, and trees should be planted at least 15 feet from the house.

Shrinkage and Expansion

Most houses will settle to some extent within 12 months after they are built. Such settlement may cause cracks in the walls and at the floor line. Usually these cracks are not large enough to cause any damage.

Since concrete or concrete blocks may continue to shrink for a period of a year, basement walls composed of such material may crack. If necessary, these cracks can be filled with cement or cement paint. Cracks of this nature will not usually affect the structural soundness of the house. However, if these cracks are large enough to break the outside dampproof coating, they may cause dampness.

In any case where the basement or foundation walls or the outside masonry walls develop cracks that cause leakage or indicate some structural defects, consult with your builder or an experienced technician to determine the cause.

Changes in the weather will cause wood to shrink or expand to some extent, which may result in cracks in plaster walls and at joints in woodwork and separation of floorboards. The best way to avoid these cracks is to keep the house at an even temperature. The house should not be overheated, especially in the first year.

Roof

A roof leak is most likely to occur where the roof joins chimneys, dormers, or in the valleys where two roof slopes meet. These areas are protected by metal flashings, which prevent water from leaking into the house. Such flashings should be inspected for signs of rust at least once a year. Whenever these flashings show signs of rust, they should be cleaned with a wire brush and painted with a metal primer coat and a suitable topcoat. Cracks around flashings can be sealed with flashing cement or similar compounds. Care should be taken to prevent any damage to the roof surface of the flashings.

If the valleys of a roof become filled with snow and ice, a temporary roof leak may result from water backing up under the shingles. Clogged downspouts or gutters may also cause roof leaks, and they should be kept clean from leaves, trash, and other material.

Doors and Windows

Like other woodwork, doors and window frames tend to swell and shrink. However, a warped door may straighten itself in warm weather. In such cases, you may prevent the door from warping again by painting the door edges, as well as the sides.

A door that sticks can be planed down. However, if you plane it too much, and the wood continues to shrink, the door may not fit properly. It is best to let it dry out and then plane the door if it continues to stick.

You should ask the builder to adjust any windows that do not open and shut properly. If a window is painted shut, it should be freed by someone with experience in such matters.

Floors

Hardwood floors should be cleaned with a waterless wax base cleaner and should not be cleaned with water. An oil mop should not be used on waxed floors because oil softens wax. Also, a water emulsion wax should not be used on wood floors.

Asphalt tile floors should not be washed until at least 2 weeks after they are laid. This will allow sufficient time for the adhesive to set. Asphalt tile, rubber tile, cork, or linoleum floors should not be cleaned with solvents such as gasoline, benzine or naphtha. They should be cleaned with detergent or soap and water. These floors need to be waxed with a water emulsion wax because they are porous. However, vinyl tile floors can be cleaned with a solvent and can be waxed with either paste or emulsion wax.

Paint

Moisture, vapor, and condensation are the most common cause of paint trouble inside the house. Installation of storm windows will prevent heavy condensation, which may cause paint to peel on the inside of the window sash or stool.

Paint peeling on the outside of a house may be caused by water getting into or behind the siding. Open points in the siding and around the windows on the outside of the house should be filled with a caulking compound in warm, dry weather and be checked whenever the house is repainted. The caulking will prevent water from getting in behind the siding.

Moisture generated inside the house which condenses on the back of the siding is one of the common causes of paint peeling outside the house. Other causes of paint peeling may come from an inferior wood primer, or an improper type of paint, or from repainting too often. If such trouble develops, you should find out the cause and correct it before repainting. In most instances, it is best to obtain the advice of a paint or hardware dealer.

Homes built before 1978 may contain lead-based paint, which is poisonous if eaten. Children are particularly at risk from lead paint poisoning.

The best way to prevent lead paint poisoning is to keep your home in good repair. The primary source of lead paint hazard is peeling and flaking paint. To prevent peeling paint, most housing units should be repainted every 3 to 5 years. Any loose or flaking paint on any exterior or interior surface should be repainted with at least two coats of non-lead based paint. When it is not possible to remove and control loose or flaking paint, the paint should be removed altogether or the surfaces should be covered with hardboard, plywood, plaster, drywall, or other suitable material.

Heating

If anything should go wrong with your heating unit, it is best to call in a qualified professional who is familiar with the type of unit in your home. In most areas, the local gas company services and inspects gas-fired furnaces, upon request, without charge to homeowners.

In the event you smell gas in your home, you should check to see if all pilot lights are on and all burners are off. If so, open all the windows, and then call the gas company. The main gas line which is usually located near the meter should be turned off. After the trouble is corrected, make sure all the pilot lights are relit as soon as the gas is again turned on.

Electrical Work

Most modern houses are adequately wired to take care of the various modern appliances and other electrical instruments in common use. However, if you intend to add a large appliance such as a freezer or dryer or to operate power tools, consult a reliable electrical contractor to determine whether additional wiring is necessary. Large appliances and power tools operate better and more safely on separate circuits.

The electrical system in your home may be equipped with either a fuse box or a circuit breaker. These are considered safety valves. All outlets on a circuit cease to operate when a fuse is blown or a circuit breaker is tripped. If this happens, locate the source of trouble before a new fuse is installed or the circuit breaker switch is turned on. The source of trouble may have been caused by a short circuit resulting from a worn cord or a defective switch, plug, or appliance. Sometimes trouble will result from starting an electric motor on an overloaded circuit. It requires more current to start a motor than it does to operate it after it is running. An electrician should be called whenever the cause of your trouble is a short circuit.

You can reset a circuit breaker by following the instructions on the panel. A fuse can be replaced by unscrewing the one that has blown and replacing it with one that has the proper ampere rating. Sometimes the fuse you replace may not have had the proper ampere rating. A 15-ampere fuse should be used for lighting and general circuits, and a 20-ampere fuse should be used for circuits that operate kitchen and laundry appliances.

If you have a complete power failure in your house, you should call the electric company. The trouble in these cases is usually in the outside powerlines. However, if your neighbors have power when yours is off, the probable trouble may be that one of your main fuses has blown. Main fuses are located behind a pullout in the panel marked "Main" and should be replaced only with fuses of the same number of amperes. Since water conducts electricity, you should never handle electric wires or plug in appliances when your hands are wet or when you are standing on a wet floor.

Plumbing

The plumbing system in your home will usually give you no trouble other than a dripping faucet or failure of the toilet supply valve to shut off. These conditions may be caused by dirt particles lodged under the valve seat. A plumber can easily correct these conditions by taking the valve apart and cleaning it.

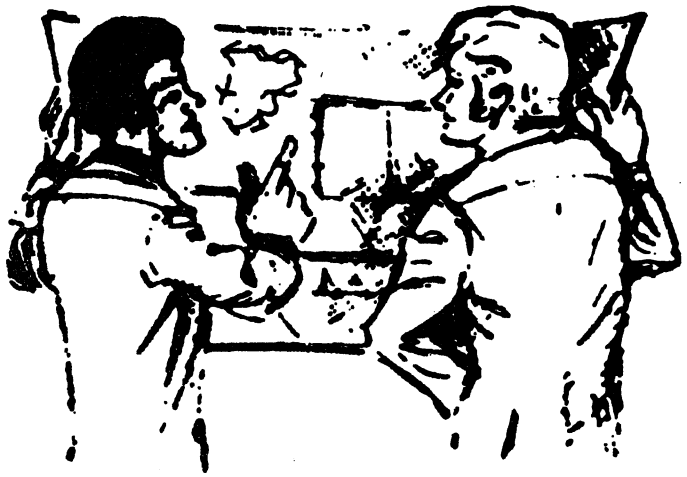
The plumbing system has a main valve, which is used to cut off the water supply in cases of emergency. If you do not know its location, ask the builder.

If your home is located in an area that has freezing weather, you should turn off the exterior water connections before such weather sets in. The cutoff valve controlling exterior water connections is usually located inside the house, close to where the pipe goes through the wall. After these valves are closed, you should open the outside faucets to drain off the water. If there are no control valves for exterior water connections in your home, you need not worry, because you probably have frostproof connections.

Any cracks that may appear between the bathtub and the wall or floor can usually be patched with white cement. White cement, which is also referred to as tile putty, can be bought at most hardware stores. You should report to your builder any cracks that are too large to patch with cement.

Sewage Disposal

If your house is connected to a public sewage system, you generally will have no sewage disposal problems. If there are no public sewers in your area, your plumbing system will probably be connected to a septic tank system installed on your property. If so, you should know certain facts about it. Ask the builder to show you where the septic tank and the absorption field are located. Also find out the liquid capacity of the tank and the location of the manhole cover.



Generally a septic tank system will cause no trouble if it has been properly installed and is maintained. Proper maintenance procedure calls for the septic tank to be inspected at least once a year, and it may need cleaning every 2 years.

The size of the septic tank and absorption field is determined by the number of bedrooms in your home (two ocupants to a bedroom) and the equipment that was included in the house when it was built. If it becomes necessary for more than two persons to occupy a bedroom or if another bedroom is added to your home, or additional water-using equipment is installed, be sure the septic tank system is large enough to absorb the extra load. Advice in this regard should be obtained from your local health department.

Trucks and other heavy equipment should not be allowed to move over the area under which the septic tank and absorption field are located. This could cause damage to your tank and drainage tile. Shrubs and trees should not be planted in the absorption field area, because their roots may damage or clog the drainage tile. Also, the absorption field area should be properly graded and well drained to prevent storm water from flowing across and flooding the septic tank system.

Importance of Regular Payments

Most home loans must be repaid over a period of years through regular monthly installments. The payments, under the terms of the note and mortgage or other legal papers which you signed, must be made on time. Otherwise, you may lose your property as well as your credit standing in the community. Also, you may lose any money you have spent for downpayment, monthly payments, repairs, or improvements.

Your goal is to own a debt-free home, and the payments required by your loan contract must be made regularly if that goal is to be reached.

Your lender cannot charge a rate of interest greater than that allowed by the note you signed for your VA guaranteed loan, but in most cases, an extra charge can be made if the payment is more than 15 days late. This extra charge may be as much as 4 percent of the late payment. Therefore, if you wish to avoid the payment of late charges and stay in the good graces of the holder of the mortgage, make your payments on time.

Don't get a reputation of being a "chronic delinquent," –that is always late with your payments, because the holder of your loan will take into account your repayment record if you should ever need an extension of time.

Taxes and Insurance

The prompt payment of any taxes, real or personal, which are charged against your home property, and the maintenance of fire and other insurance protection is as much a part of your duty as the payment of the monthly installments on the loan.

If you fail to pay the taxes on your home or to keep it insured according to your mortgage agreement, and if the mortgage so provides, your lender may foreclose the mortgage, even though your installment payments are up to date.

To make sure of the prompt payment of such taxes and insurance premiums, many lenders require that there be established what is known as a "Tax and Insurance Account."

If your mortgage provides for a tax and insurance account, you will be asked to pay your lender each month an amount equal to one–twelfth (1/12) of the total estimated yearly tax and insurance costs. This estimate is generally performed by the loan holder in accordance with the loan agreement. The estimate may be somewhat higher than the actual yearly tax and insurance requirements in order to ensure that sufficient funds are in your escrow account to pay your taxes or insurance premiums even if there has been an increase in the amount due over the previous bill. In making this estimate holders are permitted, in accordance with the Real Estate Settlement Procedures Act (as amended by Public Law 94–205), to maintain a reserve, or surplus, of 1/6 of the estimated yearly tax and insurance requirements in the escrow account.

Under such an arrangement, the holder of your loan will have received from you most, if not all, of the funds necessary to pay these items when they are due. Generally, your lender will obtain and pay these bills. However, if the bills are sent to you, they should be forwarded to your lender for payment if you have a tax and insurance account.

If you know of any reason why your tax bills or insurance premiums will be more or less next year than in the year before, let your lender know about it, so that the monthly payments to your tax and insurance account may be changed. These tax and insurance payments by the month are as helpful to the borrower as they are to the holder of the mortgage.

Generally, it is easier for the average borrower to deposit with the lender one-twelfth (1/12) of the annual taxes and insurance premiums each month than it is to pay the total amount in full when these items are due.

Some lenders do not require their borrowers to establish and maintain a tax and insurance account. If this is the case, you will have to pay these items yourself when they are due and present to the holder your receipts for taxes and paid insurance premiums when called upon to do so.

If the holder of your loan does not require you to make monthly deposits to a tax and insurance account, it will be necessary for you to put aside sufficiant money during the year to pay these items when they are due.

In many instances the taxes expected to be due are estimated, and, consequently, you may have to pay more taxes than originally anticipated. However, even if the actual taxes are known at the time you purchase the house, every homeowner should recognize that taxes can be, and are, increased from time to time. New schools, new parks, new water, sewer or drainage districts, can be established by local government action. Many such actions have the effect of raising property taxes either by new assessments or by increased tax rates. No one can guarantee that taxes will not be increased, and the homeowner should watch local tax developments and be prepared to meet the tax bills.

To protect its interests, your lender will require that your home be insured against loss from fire, flood (if the property is in a designated special flood

hazard area), and certain other risks in an amount at least equal to the loan balance. VA does not require insurance against all risks, nor does it require insurance to cover any value you may have in your property above the loan balance. Therefore, you should talk over your insurance problem with your lender and your insurance agent to be sure that you understand what insurance protection you have and what additional insurance you should have for your own protection on the value of the property in excess of the debt.

Veteran's and Homestead Exemption

In some States there is a veteran's exemption or a homestead exemption which may mean that the real estate taxes on your property may be reduced considerably by filing a proper notice at a certain time.

Be sure to check with your lender to find out whether these exemptions are in effect in your area, and, if so, what you must do to get the benefit of them.

Prepayments

Some mortgages contain terms which do not allow the borrower to pay off or reduce the loan in advance of the regular schedule or which require the borrower to pay a penalty for the privilege of making one or more payments before they are due.

GI loans, however, *may be paid off or reduced at any time prior to the due date without fee, extra charge, or penalty,* but your lender is not required to accept, before it is due, any prepayment less than the amount of the next principal installment due or $100 if the installment is larger than that. In other words, you may not prepay less than the amount of the next principal installment due if that installment is under $100.

Since you are paying interest on the full amount of money owed, there are of course certain advantages in paying off your loan as rapidly as you can. Many veterans have taken advantage of this prepayment privilege and have used VA insurance dividends, and other money which they have received unexpectedly to reduce their mortgage debt.

Any particular questions you may have about prepayments, how your account is credited, or how a prepayment may shorten the term of your mortgage should be taken up with your lender.

Repairs and Improvements

Some homeowners, as a result of their past experience with tools and knowledge of materials, plus a natural talent for "making things," are able to take care of many of the necessary repairs to their homes and make various improvements to their properties.

If you are one of this group, you can probably do many things yourself which will not only improve the appearance of your home but also add to the convenience and pleasure of living there. At the same time, you will be able to enjoy the savings gained by your labors.

Of course, it would be most unwise for you to experiment with faulty heating, plumbing, or electrical systems unless you know what you are doing. These important systems in your home were undoubtedly installed by experienced or licensed workmen.

If you try to repair or improve on these things when they go wrong. you may find the cost of correcting your errors to be greater than the amount which you had hoped to save by doing it yourself.

Furthermore, tampering with a modern heating system or with your electrical wiring may later result in excessive damage to the system, fire, or personal injury.

This bit of caution is not intended to suggest that you employ professional help to take care of every minor item or repair or improvement to your home.

On the contrary, there are many things you can do, or can learn to do, which will add to the appearance of your home and certainly increase your pride of ownership.

Most manufacturers or suppliers of lumber, building materials, tools, gadgets, and home improvement equipment offer complete information and instructions concerning the use of their products.

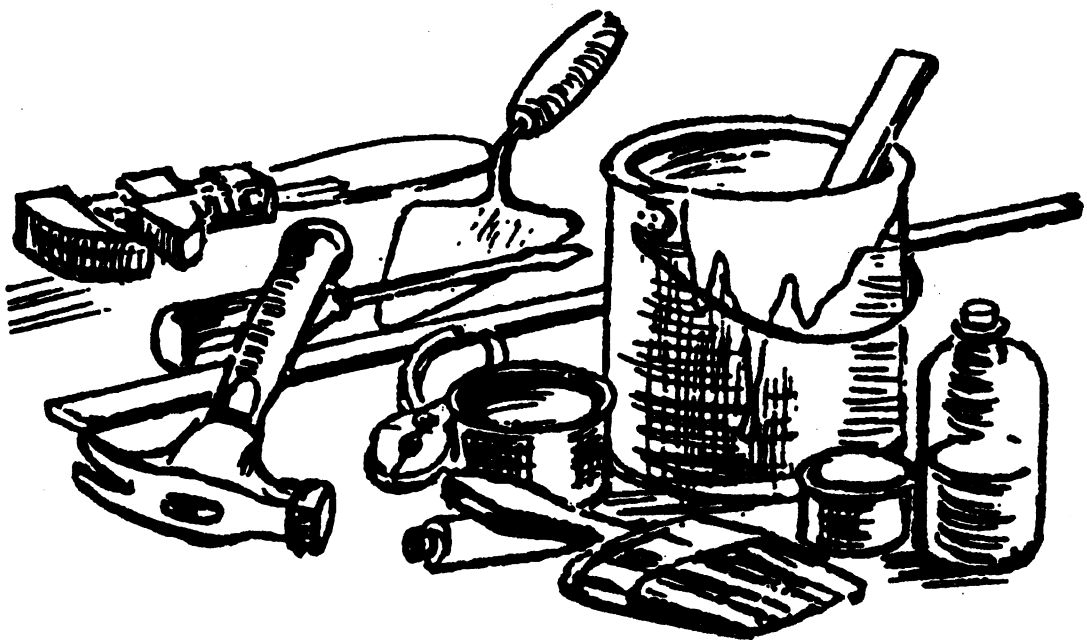
Be sure to keep in one convenient place all the guarantees, service agreements, and instructions that came with your appliances. Read the instructions carefully before you operate any appliance. You should, of course, follow the instructions you get concerning guarantees and warranties, particularly those which call for notifications to be sent to the manufacturers. If something goes wrong with an appliance and you don't know how to fix it, call the local utility company or the serving agent.

Don't start something that you are not reasonably sure you can finish unless you are able to pay for the services of a mechanic or expert to do certain special or difficult parts of the job.

As a further word of warning, you should remember that the terms of your mortgage forbid any "waste or impairment" to your home.

Also, you should remember that substantial alterations or improvements to your home, or even the building of a garage, may require a permit and approval of local authority.

Therefore, before starting such improvements or additions to your home, be sure that your lender approves. The lender may advise you, if necessary, how to go about getting your proposed improvement cleared with proper local authorities.



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If You Have Trouble Making Your Payments

When Payments Cannot Be Made on Due Date

Even the most reliable borrowers sometimes fail to meet every payment on its due date, and it is possible that there is good reason for the failure, such as a reduction of earnings or illness in the family.

If you find that you will be unable to make your payment when it is due, by all means let your lender know and try to work out a satisfactory plan to make up the payments missed.

The lender's friendly advice may be most helpful when you are in a tight spot. Try to see the lender before it is necessary that the lender write to you, but never fail to answer notices or letters you may receive.

In emergencies, the first impulse sometimes is to borrow money in order to keep the mortgage payments current. However, any new loan must be paid off in a short time through burdensome installments, and the extra strain often leads to more serious financial trouble.

It is far better to visit the holder of your mortgage and frankly explain your trouble. Put "all your cards on the table." If you can, offer some plan for catching up on your payments and request advice and guidance–not to ask for sympathy–but to let the lender know that you are anxious to keep your home, and sincere in your desire to find a way out of your trouble. If you are willing to cooperate, your sincerity will be appreciated. If possible, the lender will help you develop a plan that will enable you to keep your home.

Failure to cooperate with your lender may result in the loss of your home by foreclosure of the mortgage. Besides causing the loss of your home, this would naturally have a very bad effect on your credit standing, and may even leave you with a debt. You can, and should, avoid this.

When Financial Troubles Arise

When serious financial troubles arise, it is obvious that living expenses must be cut to the bone. Most of the luxuries previously enjoyed, and even some things which may have been thought of as necessary, may have to be dropped for a time.

In order to help veterans in serious financial trouble, all VA regional offices have technicians available to conduct financial counseling. This counseling is designed to help you avoid foreclosure. If you want this assistance, contact your local regional office for a financial counseling appointment.

Every homeowner dislikes the idea of losing a home. It is far better to sell it of your own free will and perhaps save your equity (amount by which value of property exceeds loan balance) than to have it taken away by foreclosure. This could cause you to lose all you have paid in, spoil your credit standing, and possibly increase your present debts. Later, when your financial position has improved, you may again be able to buy a home of your own.

There's also another very good reason for doing everything you can to avoid having your mortgage foreclosed. If your loan closed before January 1, 1990, and if, as a result of foreclosure, VA has to pay a claim to the lender under the guaranty, the amount of such claim will be a debt you will owe to the Government. If your loan closed on or after January 1, 1990, you will owe the Government in the event of a default if there was fraud, misrepresentation, or bad faith on your part.

Beware of the "Dotted Line"

Veterans who are behind in the payments due on their GI loans are warned to be very careful before agreeing to any offers by strangers to make up their

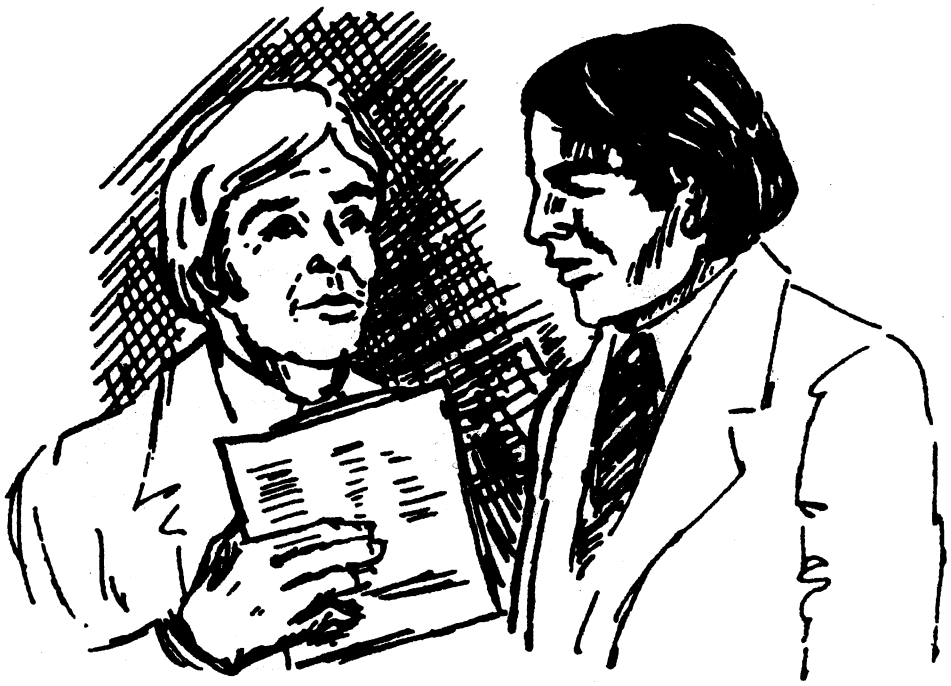
back payments if the veterans will "sign on the dotted line."

If such a proposition is made to you, ask the holder of your mortgage or the Loan Guaranty Division of the nearest VA regional office about it before you sign any paper. They will be glad to advise you whether or not the offer is good and sound. VA cannot give you legal advice or service, but it can advise as to dangerous practices or as to the advisability of consulting an attorney.

In some parts of the country, veterans who are not familiar with real estate transactions have been "taken in" by shady deals usually called "milking" or "equity skimming."

In one form of this racket, the veteran, who is behind in GI loan payments, is approached by unknown persons who offer to pay the delinquent installments if the veteran will "sign on the dotted line." The veteran later learns that he or she has signed a deed and can get the property back only by signing another contract at a much higher price. When the veteran finds the stiff terms of the new contract cannot be met, legal action is started to take possession of the veteran's home.

In other cases, a housing development will be visited to learn whether veterans are having trouble meeting their GI loan payments. If the veterans are having trouble, these individuals offer each veteran a small amount of cash for the equity in the property, plus the privilege of buying another home in a lower cost neighborhood on a land sales contract. The veteran agrees to



give possession in 60 days and "signs on the dotted line," not knowing that he or she is signing a deed to the property. When the 60 days are up, the veteran is told that no houses are available in the lower cost development. The veteran is then put out of the home.

A third method is used in States where there is a long foreclosure or mortgage redemption period. A veteran, falling behind in home loan payments, is offered a small sum of cash for a "quitclaim" deed to the property with a promise that all back payments will be made up. The veteran moves out believing that the loan will be brought up to date. Instead, the individual holding the quitclaim deed rents the house without making up back payments. Most of the money received as rent is profit until foreclosure is final, and the veteran, not knowing what has happened, may still owe the lender, and quite possibly, the U.S. Government if VA pays a claim on the loan.

Many types of these shady deals are used in different parts of the country, depending on how these individuals can misuse State and local laws. Although these practices may be legal, they are considered unethical by most mortgage lenders and real estate brokers.

You will be protecting your own interests and doing other veterans a service if you report any such propositions to the holder of your mortgage and to the nearest VA regional office.

If you decide to sell your home and the GI loan is not paid in full as part of the sale, you should protect yourself by obtaining a release of liability from VA prior to completing the sale. You should also be aware that if your GI loan closed on or after March 1, 1988, it is unlawful to allow someone to take over your GI loan without the prior approval of VA or your lender. Contact VA or your lender to find out how to apply for approval of your sale and/or a release of liability.

3

If You Sell or Rent Your Home

Renting Your House

For a number of reasons you may wish to rent your home. You may find a tenant yourself, collect the rents, and take care of the property, or you may have a rental agent do these things for you for a fee. It is up to you to decide which is better for you.

If you rent the house yourself, you are faced with the problem of collections and upkeep of the property. Sometimes this is troublesome and requires knowledge and experience in this work. On the other hand, if the tenant is prompt in the payment of the rent and takes good care of the property, there would be no particular problems with respect to collection or repairs.

The proper upkeep of your property is an important and necessary part of homeownership. Your tenant may not give your house the same care that you would give it.

If it is not inspected regularly and kept in good repair, the cost of putting it in good condition again may be greater than the rentals you are collecting.

If you handle the renting of the property yourself, you must make the necessary inspections to assure that the property is not being abused and is being kept in good condition.

If you hire a rental agent, the agent will make these inspections for you and see that necessary repairs are made according to the terms of your contract. Your rental agent may agree to send the payments on your GI loan directly to your lender from the rental collections and forward any balance to you after taking a commission and any authorized costs of upkeep. You will, of course, have to pay the agent a commission or fee for such services.

Whether you rent the property yourself or have a rental agent do it for you, the

selection of a good tenant is most important. You should be sure that the tenant has a good credit record and enough income to make the rental payments on time.

You should not rent to a tenant whose family is larger than the house will accommodate comfortably, and you should select a tenant who will take good care of the property.

It may be to your advantage to get the tenant to sign a written lease or rental agreement, and some tenants will insist upon this. A lease is a contract between you and your tenant stating the terms and conditions under which your property is leased and occupied.

Unless you are qualified to write a lease properly, it will be best for you to obtain the services of an attorney to handle this matter for you.

Regardless of any arrangement or contract between you and your tenant or rental agent, your lender will hold you strictly responsible for the payments on your GI loan and the proper maintenance of your home, in accordance with the terms of your mortgage or deed of trust.

If your lender or lender's representative is located near you, it will be well for you to discuss your rental plans with them before you rent your property; they may be able to give you valuable advice.

Selling Your Home

It may become necessary or advisable for you to sell your home. If you sell the property for more than the mortgage debt and there are no other debts against the property, you will receive the difference between the sales price and the balance due on the mortgage. You may receive this amount in cash, or, in order to obtain a better price for your property, you may take back a second lien.

You may get a real estate broker to find a buyer and handle the sale for you, or you may find a buyer and make the sale yourself. You should decide which method is better in your case.

If you get a real estate broker, the fee in most cases will be about 5 to 7 percent of the sales price although a higher fee may be charged in the case of rural (country) property. If you decide to list your property for sale with a real estate broker, you should select one who knows and deals in the sale of houses like yours and who has a good reputation in the area where property is located.

Regardless of whether you rent or sell and whether you handle it yourself or engage a real estate broker or rental agent to do it for you, VA recommends that for your own protection you consult an attorney before either renting or

selling. The real estate broker or rental agent should not be expected to perform legal services, and VA is not authorized to perform legal services for veterans.

If your lender or lender's representative is located near you, it will be best to consult with them before selling your home; they may be able to give you valuable advice. If your GI loan closed on or after March 1, 1988, then you must obtain the approval of VA or your lender before you allow someone to "take over" the loan.

You should be sure to notify your lender and VA when the sale is closed, advising the name and address of the buyer as well as your new address.

Your Personal Liability

If the buyer of your property pays all cash or gets his or her own loan, and your GI mortgage is paid off, you are entirely free of that debt and you can then have your benefit reinstated and purchase another home using a GI loan. However, your GI loan may have features which are better than those of ordinary mortgage loans, so you may find that you will be able to get more for the property if it is sold with your existing GI mortgage remaining on the property.

This means that the buyer will "take over" your mortgage and the lender will look to the buyer for the monthly payments. But if the buyer does not pay regularly, or if the property should be sold to someone else who does not make the payments, your lender will foreclose the mortgage and, unless the property brings enough at the foreclosure sale to pay off the loan balance, you will owe the difference.

In other words, you remain personally liable for the payment of your GI loan if it is not paid by someone else, even though your buyer assumes (takes over) the mortgage and agrees to make the payments.

If you go through a divorce, and the property is awarded to your spouse, you remain liable for payment of the loan just as you would if the property had been sold with your GI loan still outstanding.

Always keep the lender and VA advised of your current address, so that you may be notified in case the person who bought the property from you should fail to make the payments or otherwise defaults.

If you are notified that your purchaser has defaulted, you should contact him or her to see what the chances are to reinstate the loan or sell the property to someone who will.

If it appears that foreclosure will take place, you should consider whether you

should try to have the owner of the property deed it back to you and then pay the delinquent installments on the loan yourself.

Should VA be required to pay a claim on your loan, you may then be indebted to the Government for the amount of the claim payment, unless you were released from personal liability by VA when you sold your home. (See ch.4.)

If your GI loan closed on or after March 1, 1988, then the approval of VA or your lender is required prior to selling your home, if the GI loan will not be paid in full as part of the sale. Should you fail to obtain this approval, your lender has the right to declare your entire loan balance due and payable at once and may foreclose the mortgage and file a claim with VA. You could be liable to VA for the amount of any claim paid in such a situation. You can avoid future liability by obtaining prior approval from VA or your lender for the purchaser to assume your VA loan with your release from liability. (See ch.4.)

4

Release of Veterans From Liability And Restoration on GI Loans

Release of Liability

Under certain circumstances, VA may release a veteran from liability to the Government when the residential property purchased with a GI loan is sold and the veteran's loan is not paid off.

You may be released of that liability to VA if your loan is current and if the purchaser has been obligated by contract to purchase your property and assume your liability. In addition, the purchaser must satisfy VA that he or she is a good credit risk.

In planning to sell your home, you may take either of two steps to avoid future liability. (1) You can arrange for your GI loan to be paid in full which allows you to obtain restoration of your entitlement and reuse your benefit for another home loan, or (2) you can allow the purchaser to assume your GI loan and obtain a release of your liability on the loan from the holder of the mortgage and VA provided, of course, both agree. However, release of liability does not meet the requirements for restoration.

A release of liability to the Government means that the Government will not attempt to collect from you in the event the purchaser defaults on the loan and pays a claim under the guaranty.

You may apply to VA for a release from liability by submitting a request to the VA regional office that processed your loan. If your loan closed on or after March 1, 1988, then you should first contact your lender to see if they will handle your request as an authorized agent of VA. No special form is needed.

However, the request should include the VA loan number if known (it is shown on the reverse of the certificate of eligibility), the address of the property, the name and address of the proposed purchaser, and the name and address of the holder of the mortgage.

In planning to sell the home you purchased with a GI loan, you should arrange to make application to VA or your lender for a release from liability before signing the contract to sell, or include a clause in the contract to the effect that the sale is conditioned on your being released from liability by VA on your GI loan.

Either your lender or the Loan Guaranty Officer at the VA regional office which processed your original loan determines whether you will be released from liability to the Government. Upon receipt of a request, your lender or VA will send you all necessary information and forms for transferring the liability to the new purchaser and obtaining a release. For example, the proposed purchaser will be required to submit a financial statement and sign an assumption (of liability) agreement.

Your release from liability will not affect the VA guaranty of the loan. Such guaranty will continue in effect.

You do not have to sell your home to a veteran to obtain a release from liability to the Government. The proposed purchaser may be a veteran or a nonveteran. If you purchased your home with a VA direct loan, you may be released from liability to the Government under the same conditions as a veteran with a guaranteed GI loan.

The holder of your mortgage may release you from liability if VA does. However, VA has no authority to require the holder to do so. Further information concerning this should be obtained from the firm or agency to which your payments are being made prior to the actual sale of the property.

In the event the holder of the mortgage does not release you from liability, VA nevertheless will release you from liability to the Governemnt, provided the proposed purchaser qualifies from a credit standpoint and assumes liability by an agreement in writing in such form as VA may require and the loan is current.

If the holder of the mortgage refuses to release you from liability, you are still liable to the holder even though you have been released from liability to the Government. What happens would depend on the facts of the case and local laws. For example, in some States, in event of foreclosure, the holder of the mortgage could obtain a deficiency judgment against the original veteran-borrower if the property did not sell for enough to satisfy the debt.

Your spouse is also liable to the Government if he or she signed the note when the GI loan was made. However, when you are released from liability to

the Government, your spouse will also be released from such liability. The cost of obtaining a release of liability will vary, depending on when you obtained your loan. Older loans involve only the cost of a credit report on the proposed purchaser and the cost of recording the assumption agreement and release, if recording is necessary. Such costs must be paid by either you or the proposed purchaser.

For loans closed on or after March 1, 1988, the law allows a lender or VA to collect a processing charge for determining whether or not the proposed assumption may be approved. In addition, the law requires that an assumer of your GI loan pay to VA a funding fee equal to one-half of 1 percent of the loan balance. This is usually collected at loan closing, sent to the lender with the other information on the sale, and then forwarded to VA.

Remember, if your GI loan closed on or after March 1, 1988, you must obtain the prior approval of your lender or VA if you sell the property without your GI loan being paid in full. Even if you have an older loan, you should still apply to VA for a release of liability prior to completing the sale, so that the Government will not attempt to collect from you if the purchaser later defaults on the loan and VA pays a claim under loan guaranty.

The fact that you will receive a cash payment representing the difference between the sale price and the balance of your GI loan which is to be assumed by your purchaser will not prevent you from obtaining a release of liability from the Government.

Your entitlement cannot be restored when you are released from liability to the Government unless VA is also released from liability on the guaranty by the holder, and you are otherwise eligible for restoration. Normally, VA is not relieved of its liability on the guaranty unless your loan is paid in full, as VA continues to be liable on the guaranty even though you have been released from liability to the Government.

Additional information concerning the release of veterans from liability on GI loans may be obtained from the nearest VA office.

Restoration

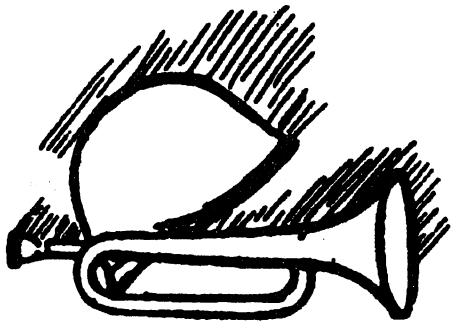
If you have sold the home you purchased with a GI loan, it is possible to have your home loan benefit restored so you may purchase another home with a GI loan. To do this, you must have disposed of the property which originally secured the loan, *and* the VA loan must be paid in full or the holder must relieve VA of liability. These do not have to occur at the same time, but both requirements must be met before VA can reinstate your benefit. Consequently, if you previously sold your home on an assumption, you may now qualify for restoration if the loan has been paid in full since the time of the sale. To find out if the loan is paid in full, you should consult with the lender who received your payments or the VA office which guaranteed your loan.

In certain other cases involving assumption, a veteran may qualify for restoration if a veteran-assumer agrees to substitute his or her entitlement for that of the original veteran-borrower. Veterans should contact the nearest VA office for more specific information concerning substitution of entitlement.

Remember, a release of liability to the veteran from VA does not meet the requirements for restoration. Your loan must be paid in full, or the holder must agree to cancel VA's responsibility on the loan, or the requirements for substitution of entitlement must be met *and* you must have completely disposed of the property.

5

If You Are Recalled to Active Military Duty



VA will do everything possible to help those veterans who may be recalled to military service and are unable to meet the full payments on their GI loans as a result. Here are some pointers and some advice as to what you should do.

When you receive notice to report for military service, notify your mortgage holder at once. The holder of your mortgage may not be the one who originally made the loan, because the mortgage may have been bought by another bank, building and loan association, insurance company, or other institution, and they may have an agent to whom your payments are made.

The holder of the mortgage (or agent, as the case may be) should be informed of your recall to military service and the effect, if any, on your ability to continue the payments required by your mortgage contract.

Discuss your entire situation in detail, and if your total family income from service pay, allotments, and other sources will be sufficient to keep up your payments, make an arrangement to pay as much as you can.

The part of the regular payment which you are unable to make may be postponed until after your discharge from service, and at that time you should again see the holder or the agent and make arrangements for a repayment schedule. If you fail to make proper arrangements, your loan will be in default and may be foreclosed.

Veterans recalled to active military duty are often entitled to protection under the provisions of the Soldiers' and Sailors' Civil Relief Act of 1940, as amended. If your home loan was made at an interest rate of more than 6 percent per year, and you qualify for protection under the Act, your interest rate will be reduced to no more than 6 percent during the time you are on active duty. You will incur no penalty or obligation to repay the forgiven interest amount. When you inform the holder or its agent of your recall to

military service, request them to recalculate your monthly mortgage payments at the 6 percent rate.

The Act does not give you any right to stop making payments entirely. Therefore, you must arrange a payment schedule which you can meet during your period of service.

If you are unable to arrange an acceptable payment schedule with the holder of your mortgage, the Act allows you to apply to a court for relief. The court can order the suspension of all or part of your payments during your period of military service and require the lender to accept repayment in equal installments over the remaining term of your loan. Any payments or part of payments postponed must be made up after your discharge.

In addition, court permission is necessary to foreclose a loan covered under the Act during your active service and for 3 months after your discharge, provided your income is so reduced that you cannot make the required payment.

Therefore, it is wise to pay as much as you can and put off as little as possible, so that it will not be too much of a hardship to make up the amount deferred when the time comes.

If you are already in military service and your loan is in default because you have not made your payments or for any other reason and you can't visit the holder of your mortgage, your spouse or some other member of your family should go to the mortgage holder (or agent) to explain the circumstances and make the arrangements for you.

Ordinarily it will not be necessary that you see VA in regard to your loan. However, if you need assistance or advice for some reason, a letter may be directed to the VA office which issued the guaranty on your loan.

Address the letter to the Loan Guaranty Officer, VA Regional Office, and mail it to the VA office which processed your loan. Include the following information:

Full name of borrower(s)
Your rank and military unit
Your present mailing address
Name and address of holder of mortgage, or agent to whom payments are made
Address of mortgaged property
Loan number.

Finally, remember these points:

- If you can keep up the required payments on your loan but fail to do so, you will be in default, and your loan may be foreclosed.
- If you cannot keep up the required payments on your loan, make definite

arrangements with the holder of your mortgage to pay less than the required amount during your period of military service.

- Pay as much as you can while you are in service, so that you will have less to make up after you are discharged.
- Keep the holder of your mortgage (or agent) informed of your status as it affects your ability to pay, and see them promptly after your discharge.
- If you have agreed to pay a certain amount, be sure to make that payment regularly and then you need not worry about the loss of your property while you are away.

6

Summary

Your home represents a big investment – an investment you will want to protect.

You have been able to borrow the money to help buy your home on favorable terms because the Government guaranteed a part of your loan under the GI bill. It is up to you to pay it back on schedule.

Don't get yourself tied up with debts for luxuries so that you are always worried about how to meet necessary expenses. Buy such luxuries only when you can afford to pay for them, and meanwhile enjoy peace of mind which, in itself, is a luxury.

Keep your house and grounds in good condition to show your pride of home-ownership and to avoid loss in the value of your property which will happen if it is neglected.

Make your mortgage payments regularly on or before the date they are due. Borrowed money must be repaid as promised when you get the loan.

Monthly payments to the holder of your mortgage, or to the agent, usually include the taxes and insurance on the property; but you should be sure that tax payments are provided for and that adequate insurance coverage is maintained.

Arrange to get tax exemption if you are entitled to it.

Consider making advance payments on your mortgage if you get some extra money. This will save interest charges.

Save money by making minor repairs and improvements to your property yourself, but do not attempt to do work which you may know nothing about, such as plumbing, heating, or electric wiring.

If you purchased a new house which was inspected by VA or HUD during construction, VA may be able to assist you, if necessary, in obtaining the warrantor's cooperation in correcting construction complaints reported to the warrantor during the 1-year warranty period. In addition, if a structural defect seriously affecting the livability of that house develops within 4 years after the VA loan is made or guaranteed, VA may be able to help you if the warrantor refuses to correct that defect.

If you purchased a previously occupied house, the correction of any defects now existing or that may develop are the responsibility of the purchaser. However, if you assumed the VA loan of the original purchaser of a new house which was inspected by VA or HUD during construction, VA assistance with structural defects seriously affecting the livability of that house, as explained above, may also be available to you within the 4-year period after the VA loan to the original purchaser was made or guaranteed.

If you purchased a home enrolled by the builder in an extended warranty or protection plan, the "insurance/warranty" documents should be carefully read as those documents contain information on the protection plan's terms, the obligations of the builder and plan provider, coverage, and claim processing

procedures. As noted above, VA's ability to assist you with construction complaints is limited to homes inspected by VA or HUD and generally to those complaints reported during the 1-year warranty period. You are encouraged to inform the VA regional office of the final disposition of any complaint processed through a protection plan.

Seek your lender's advice if you cannot make your next payment when it is due, and give the lender all the facts. Show the lender you are sincere and do everything possible to keep your credit in good standing. If you run into unexpected financial trouble, try to keep up your mortgage payments by cutting other expenses to the bone. If this does not work out, consider renting your home temporarily and moving to cheaper quarters. Finally, sell your home, if necessary, rather than let it be taken away from you by foreclosure of the mortgage.

Beware of strangers who offer to make up your back payments, or who want you to accept a cash payment for your equity, provided you will "sign on the dotted line." Report such proposals to your lender or to the nearest VA office.

If you do rent or sell your house, obtain competent advice on how best to go about it. Be sure to get a good tenant who will pay the rent and take good care of the property; or, if you sell, get all cash or find a buyer who can take over and make your mortgage payments. If you sell and permit your GI loan to remain on the property, apply to VA for a release from liability before you sign a contract of sale.

Remember, you must have the prior approval of VA or your lender to sell in this manner, if your GI loan closed on or after March 1, 1988. Always keep the lender and VA advised of your current address, if you have sold your property without obtaining a release from personal liability on your loan, so that you may be notified in case the purchaser fails to make the payments on your loan or it otherwise is in default.

Foreclosure of your mortgage will mean the loss of your home, it will have a bad effect on your credit standing; and you may owe money to the Government if VA pays a claim under its guaranty of the loan.

See the holder of your mortgage if you are called into active military service if your service pay will not be enough to cover the regular mortgage payments as well as your family living expenses.

All veterans have loan guaranty entitlement available until used, whether derived from service in World War II or a later period. All delimiting dates on veteran's entitlement previously in effect have been removed, except for those individuals who derived eligibility from Reserves and National Guard. Their eligibility expires October 28, 1999.

Many veterans who have used their loan guaranty entitlement may have additional entitlement available to them. Consult or write your local VA office.

RESCISSION: VA PAMPHLET 26-5, Revised March 1992.

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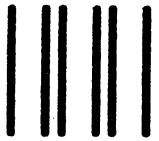

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