

Military Financial Readiness



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Financial problems can have a direct impact on military readiness. Military personnel who experience serious financial problems can lose their security clearance, face criminal sanctions or be discharged from the military. Against this backdrop, the consequences of not having the necessary skills to make sound financial decisions become even more severe. Financial capability is a key component of military readiness.

► ***Building a Solid Financial Foundation***

A foundation of good credit and money management skills is the basis of financial fitness. Good credit is the result of careful planning of your finances. Your credit record affects everything from renting an apartment to buying a home. Without good credit, it's difficult to save money, become a homeowner and build financial security.

► ***Freddie Mac Salutes Military Service***

Freddie Mac recognizes the sacrifices military families make including constant moves, deployments and other uncertainties that make navigating the economic waters especially problematic. It is important for servicemembers to have the information and the tools that will help them achieve their financial goals and dreams, including realizing the American dream of homeownership.

Stay on Course

Getting Financially Ready:

This module is a practical, easy-to-understand information guide to help you prepare financially for deployment, avoid financial schemes that target military families and manage your money wisely while in the military. It also takes a look at the VA home loan program.

As a member of the United States military, the potential for lengthy deployments away from home and family may be a constant reality. A deployment is never easy, but proper preparation can help minimize stress and anxiety for servicemembers and their families and help servicemembers rest assured that their affairs and family are taken care of while they are away. When you are getting ready for deployment, financial opportunities may be the last thing on your mind. But ignoring money matters at this busy time could be a costly mistake. Start with the fact that your paychecks grow when you receive tax-free income serving in a combat zone, and that you have access to extra savings programs that could help you stretch your money even further.

Be Prepared

As with any life-changing event, the more prepared servicemembers and their families are to deal with the adjustments they will all need to make, the easier it will be to cope with the change. By becoming educated early on about what to expect during a lengthy deployment, servicemembers and their families can become better prepared to handle the challenges as they occur. Servicemembers and their families should begin preparing for a potential deployment well before they receive deployment orders. By preparing in advance, they can reduce the stress they feel in the weeks leading up to the servicemember's departure. It's also important to protect your money from identity thieves while you're gone and to be ready for unexpected bills you can't control. The better you prepare, the better you'll be able to protect your family and your finances.

Legal Protections Under the Servicemember's Civil Relief Act

The Servicemember's Civil Relief Act (SCRA) provides a wide range of protections for individuals entering the military, those called to active duty in the military, and deployed servicemembers, including Reservists and members of the National Guard while they are on active duty. It is intended to postpone or suspend certain civil obligations to enable servicemembers to devote full attention to duty and relief stress on the family members of those deployed servicemembers. SCRA protection begins on the date of entering active duty and generally terminates 90 days after discharge from active duty. Members of a Reserve component become eligible for SCRA protections upon receipt of their orders. Additionally, in some cases protections (for all servicemembers) will continue for up to 12 months after they leave active duty. The termination deadline is sometimes extended, and should be checked for the latest update to see if this is the case for individual issues.

To invoke their SCRA protections, servicemembers are required to notify their creditors in writing when they are called to active duty, and include a copy of their official orders.

Below are some of the key servicemember protections under this Act:

- Allows servicemembers who are parties to civil lawsuits (such as paternity and child custody suits) to request a stay if their military service precludes their attendance in court;
- Protects servicemembers on active-duty from default judgments if they fail to appear at trial or respond to a lawsuit because of their military service;
- Caps interest rates on "pre-service" debts at 6 percent for the duration of the servicemember's period of military service;
- Excess interest above 6 percent cannot be added onto the end of the loan, but must be permanently forgiven; monthly payment must be reduced by the amount of interest saved during the covered period.
- Prevents landlords from evicting servicemembers on active duty for nonpayment of rents below a certain threshold, except by court order;
- Upon receipt of TDY (Temporary Duty) or PCS (Permanent Change of Station) orders, allows servicemembers to unilaterally terminate pre-service lease contracts following specified procedures;
- Prevents servicemembers from double taxation when they have a spouse who works and is taxed in a state other than the state where they maintain their permanent legal residence;

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- Prevents states from using the income earned by a servicemember in determining the spouse's tax rate when they do not maintain their permanent legal residence in that state;
 - Prohibits sellers from repossessing, reclaiming or foreclosing on property that a servicemember contracted to buy under a pre-service contract, except by court order (if the mortgage on your property is owned by Freddie Mac, view available [mortgage relief options for servicemembers](#));
 - Prohibits sellers from repossessing, reclaiming, or foreclosing on property that a servicemember contracted to buy under a pre-service contract, except by court order;
 - Authorizes the court to stay proceedings or adjust obligations in the case of claims filed to enforce mortgage or trust deed payments;
 - Protects a servicemember's life insurance from lapse because of nonpayment of premiums, per certain guidelines;
 - Provides for reinstatement of any health insurance in effect on the day before active military service commenced, without waiting period and physical restrictions;
 - Allows servicemembers who have pre-service professional liability insurance policies to suspend premiums and coverage during the period of military service;
 - Allows active duty servicemembers to defer income tax payments for up to six months after discharge if ability to pay is impaired by military service, and clarifies other tax issues;
 - Prohibits the use of personal assets to satisfy business obligations even though the servicemember may be personally liable;
 - Prohibits both creditors and insurers from pursuing adverse actions (e.g., notifying credit agencies, denying credit, changing terms) against servicemembers solely because they exercise SCRA rights;
 - Servicemembers can terminate cell phone contracts when military orders require relocation for more than 90 days to an area that does not support the contract. This applies to family contracts as well as individual contracts;
 - When SCRA protections are broken, in some circumstances the servicemembers may be able to recover attorney fees and court costs;
 - Civil actions may also be brought through the U.S. Attorney General, helping those who can't find or afford an attorney; and
 - SCRA violations can now bring a first-time offender a \$55,000 fine and up to \$110,000 for additional offenses.

Never sign a contract that includes a clause requiring you to waive your SCRA protections! Be sure to read what you sign, and watch for these clauses. Your Legal Assistance Office can provide you with a standard SCRA protection clause that can be inserted into any contract prior to signing.

If a servicemember suspects their SCRA rights or benefits may have been violated, their first course of action should be to contact their nearest military Legal Assistance Office. The nearest military Legal Assistance office can be found through the Armed Forces Legal Assistance (AFLA) Legal Services Locator.

See <http://legalassistance.law.af.mil> to find a legal assistance office near you. This site lists offices within CONUS (Continental United States). Servicemembers can also check with their chain of command.

Many SCRA issues are state specific and you should speak to a licensed attorney who knows the statutes of the state where a possible violation occurred and of the state where the servicemember resides.

Legal Affairs Preparations

Although servicemembers should always be prepared for a potential deployment, it can be hard to anticipate legal issues. Servicemembers should keep their legal documents current and review them prior to a deployment.

Each of the military service branches provide free assistance and advice in drafting and updating legal documents through Legal Assistance offices. Servicemembers preparing for a deployment are typically given higher priority for these services on the installation.

The American Bar Association (ABA) Standing Committee on Legal Assistance for Military Personnel (LAMP) manages Operation Enduring LAMP, a consortium of state and local bar associations that recruit volunteer attorneys to assist military Legal Assistance attorneys with civil law cases affecting servicemembers who meet certain income guidelines. Servicemembers can use the Operation Enduring LAMP website to locate a participating attorney in their local area. (See <http://www.americanbar.org>).

Power of Attorney

The power of attorney is a document that gives one person the authority to act on another's behalf for any legal, economic or medical issue for a specified period of time. For servicemembers, this period of time is typically the expected length of the deployment plus 90 days, in case the deployment is extended. The person designated as having power of attorney should be the servicemember's spouse, a parent or trusted friend, since it gives that person the expressed written permission to act on the servicemember's behalf. The ability of the person designated as having power of attorney to act ceases at the end of a period of time specified in the document or upon the death of the person for which the power of attorney is given. Both the servicemember and his or her spouse should designate a power of attorney prior to deployment.

Living Will

A living will, or advance medical directive, is a document that allows a person to describe what medical treatments he or she does or does not want in case of a serious injury or terminal illness. It only takes effect if the person is unable to express his or her wishes in some other way. Living wills also allow servicemembers to identify another person who should make medical decisions for them if they are unable to make them on their own. Servicemembers who decide to draft a living will should be certain that the person they designate as the decision maker understands their choice and can locate and access the living will.

Last Will and Testament

A last will and testament (or will) is a declaration that states how a person wishes his or her property to be disposed of after his or her death. Servicemembers who do not have a will are strongly encouraged to get one, especially if they have significant savings and/or real estate. Without a will, a court may end up deciding how to distribute property or even who should be responsible for the care of a servicemember's children. Servicemembers who do have a will should still consider meeting with an attorney, either through the Legal Assistance Office or through a civilian agency or law firm, prior to deployment to review the current will, determine if it still meets their needs, and to make any necessary changes. The nearest military Legal Assistance Office can be found through the AFLA Legal Services Locator at <http://legalassistance.law.af.mil>.

Establish Life Insurance

Servicemembers' Group Life Insurance (SGLI) is a low-cost term life insurance protection policy offered through the Department of Veterans Affairs (VA) for servicemembers on active duty in all five branches of the military, members of the National Guard and the Ready Reserve who are scheduled to perform at least twelve periods of inactive training per year. Some members of Ready Reserve in non-pay status are covered. Several other categories qualify as well, including some members of Individual Ready Reserve (IRR) and ROTC, cadets and midshipmen of U.S. military academies and more. These additional categories and details for qualification can be found at <http://www.benefits.va.gov/insurance/>. Even though SGLI coverage is automatic, before servicemembers deploy, they should confirm that their beneficiary(ies) designation is up to date. If they declined or reduced their coverage in the past and would like to change it now, they can do that by submitting Form SGLV 8286 through their Personnel Office. Under SGLI, servicemembers are automatically covered for the maximum amount (\$400,000) unless coverage is declined or elected at a lower amount.

Administrative and Legal Readiness Checklist for Married Servicemembers

The following checklist is designed to help servicemembers and their families prepare their administrative and legal affairs prior to a deployment. For Military and Family Documents, Insurance Policies, and Property Documents, place a check mark in the box on the left once both the servicemember and spouse have discussed where the following documents are located. In the space provided to the right, write the location of these documents to serve as a reference for the family. If an item does not apply, cross it out to avoid any future confusion.

Military and Family Documents

- | | |
|---|-------|
| <input type="checkbox"/> Birth certificates | _____ |
| <input type="checkbox"/> Marriage certificate | _____ |
| <input type="checkbox"/> Divorce decrees/separation agreements | _____ |
| <input type="checkbox"/> Death certificates for deceased family members | _____ |
| <input type="checkbox"/> Naturalization or citizenship papers | _____ |
| <input type="checkbox"/> Current Record of Emergency Data | _____ |
| <input type="checkbox"/> Military records | _____ |
| <input type="checkbox"/> Court orders pertaining to support and custody of legal dependents | _____ |
| <input type="checkbox"/> Legal papers/adoption papers | _____ |
| <input type="checkbox"/> Social security cards for all family members | _____ |
| <input type="checkbox"/> Social security numbers. | |
| Servicemember | _____ |
| Spouse | _____ |
| Children | _____ |
| <input type="checkbox"/> Up to date wills | _____ |
| <input type="checkbox"/> Power of attorney | _____ |
| <input type="checkbox"/> Advance medical directive (living will) | _____ |
| <input type="checkbox"/> Executor appointment | _____ |
| <input type="checkbox"/> Medical power of attorney for children | _____ |
| <input type="checkbox"/> Updated beneficiary for SGLI | _____ |
| <input type="checkbox"/> Completed family care plan | _____ |
| <input type="checkbox"/> Up to date ID cards for all family members, valid through the servicemember's return from deployment | _____ |
| <input type="checkbox"/> Current passports | _____ |

Insurance Policies

- | | |
|--|------------------|
| <input type="checkbox"/> Life insurance policies | |
| Agent: _____ | Telephone: _____ |
| <input type="checkbox"/> Household insurance policies | |
| Agent: _____ | Telephone: _____ |
| <input type="checkbox"/> Automotive insurance policies | |
| Agent: _____ | Telephone: _____ |

Property Documents

- ☐ Deeds _____
- ☐ Mortgage information _____
- ☐ Lease agreements _____
- ☐ Automotive title (or loan papers) _____

Additional Questions

- ☐ Are all dependents enrolled in DEERS?
- ☐ Is the family's TRICARE enrollment current?
- ☐ Do family members know where to go for legal assistance?
- ☐ Contact number for legal assistance: _____
- ☐ Do family members know where and how to obtain new ID cards?
- ☐ Are administrative and legal documents stored in a safe location?

Additional Legal Readiness Issues for Newlyweds

- ☐ Has the servicemember gone to the Personnel Office with all official documents and changed his or her official records to show that he or she is married, listing the spouse as next-of-kin on the Record of Emergency Data?
- ☐ Has the servicemember, at his or her discretion, listed his or her spouse as beneficiary for government and civilian insurance policies? If so, has the servicemember checked with the Personnel Office to confirm?
- ☐ Has the servicemember applied for a Dependent's Identification and Privilege Card and enrolled his or her spouse in DEERS at the Personnel Office?

Save on Auto Insurance

Garage a vehicle to save on insurance costs. Servicemembers can lower premiums by about 75 percent while deployed by eliminating liability and collision coverage on the stored car. You'll want to keep comprehensive coverage, which will pay if your car is damaged or stolen.

Make a Budget

The first step to preparing your finances before your deployment is to make a monthly budget. Look over the expenses your household typically encounters on a monthly basis. Itemize your financial accounts. The budget should include every expense that you pay at regular intervals.

Here's a sample list:

- Rental or mortgage payments
- Car payments
- Utilities
- Credit card bills
- Insurance bills
- Food expenses

Your budget information will be invaluable to anyone who handles your finances in your absence. The more data you can provide to that person, the better your chances will be that you won't need to fix any financial problems when you return.

The budget should give you a good idea of what financial issues you and your family will face each month. It might also reveal ways you can save money while deployed. A monthly budget is a great idea even when you're not scheduled for deployment.

Calculate Your Net Worth

Understanding your net worth provides a general overview of your financial health that is an excellent starting point for any financial planning activity. Your net worth is simply what you owe subtracted from what you own. Calculate your net worth by creating a list of all your assets (what you own) and all your liabilities (what you owe). If you commit to doing this year after year, you'll have a simple tool to see if you are moving forward financially.

Sign Up for Direct Deposit

Direct deposit is an effective way to streamline your finances while away. Your wages will automatically deposit into your account without any need for a visit to your bank's local branch. Check with your bank or credit union to find out what you'll need to do to set up direct deposit.

Many financial institutions will allow you to direct funds into multiple accounts. If you want to create an account specifically for expenses, you can designate a specific percentage of your check to deposit into that account with any remainder going into a separate account. For example, you may wish to set aside a portion of each check to go directly into a savings account.

You won't have to spend any time worrying about your designee making time to drop by the bank or the post office losing your check in the mail. Your account should receive your paycheck every pay day, just like clockwork.

Sign Up for Electronic Statements

Just because you aren't home to look over the bills doesn't mean you should remain uninformed. Many services offer an electronic statement option either in place of, or in addition to, paper statements. You'll be able to keep an eye on your bills even if you're on the other side of the world.

Mortgage companies, utilities, credit cards and other creditors offer electronic alternatives to paper billing in an effort to cut down on costs. In some cases, the companies may send you a notification via e-mail. In others, you'll have to visit the web site of the respective company and create an account.

Electronic statements give you the opportunity to catch problems before they escalate. Deployment is stressful enough without the additional burden of financial surprises when you return home. Let your designee know you'll be receiving electronic statements while deployed. However, you may not be able to receive all your bills in electronic format, so make sure your designee knows which paper bills they'll need to review. It is important that your spouse or designee opens all mail to be alerted to any unexpected problems.

Use Automatic Bill Pay Options

Some bills are going to be the same amount every time they arrive in the mail. Rent or mortgage payments and insurance payments should remain constant over time. Your bank or credit union may have an automatic payment feature that will allow you to set up a payment from your account on the same date each month.

Many banks and credit unions will let you create an automatic bill payment process online. You'll need to log in to your financial institution's web site and set up the details for each account. The site will likely ask you for information like your account numbers and the billing address for each bill.

Some utility companies offer an automatic payment option that will deduct your monthly bill directly from a bank account or credit card of your choice. These options require you to share account information with an outside party. For that reason, you may wish to create a bank account specifically to cover the cost of monthly bills and use your primary account for other banking needs.

Get a Check Card

While it's a good idea to bring cash and checks with you on your deployment, you may also want to secure a check card from your bank or credit union. Check cards are convenient and easy to carry around. Many check cards are affiliated with global credit card companies like Visa. Any vendor who accepts credit card payments from these companies should also accept a check card as payment. You may not need to ask your bank for a check card. Several financial institutions combine check cards with ATM cards. Just bring your ATM card along on deployment.

There's a major difference between a credit card and a check card. Credit cards extend credit to you and you repay the credit card company with interest for any purchases you make with the card. Check cards debit any charges from your checking account. When you use a check card, you won't have to worry about paying interest on the purchase later. A lost check card, however, could run the risk that the finder depletes your checking account before you realize it. You can ask your chain of command for advice specific to your particular deployment location.

Ask Your Bank about Active Duty Policies

Your bank or credit union may have special services designed for deployed military personnel. Some institutions will handle delays in payment or provide extensions with extra leeway for servicemembers. Other services could include streamlined or discounted loan application processes and special seminars to help you understand all your options.

Protect Your Savings

First, calculate how much savings you have. Savings can include money that has been diverted from your paycheck into a 401k, IRA or other retirement account, as well as any money you have put into a savings account at your bank. In an ideal world, you would aim to save 15 percent of your income each year. Even if you can't afford to save 15 percent of your yearly income, it is important to put some amount of money away each year in case of an emergency or additional spending needs brought on by a deployment.

Protect Your Property before Deploying

Make sure your homeowner's or renter's insurance policy is up-to-date before you deploy, and let your insurance company know if your home will be unoccupied while you are gone. Make sure you have adequate coverage for your valuable personal property, and if you plan to put your belongings into storage, consider protecting them with renter's insurance.

Taxes and Deployed Servicemember

Filing state and federal income taxes may be the last thing you want to deal with right now, especially if you or your spouse are deployed. But as overwhelming as it may seem, filing your tax return should not be difficult. The Internal Revenue Service has recognized that servicemembers and their families often face special circumstances, and has put in place ways to make this annual obligation less of a burden.

If you are a servicemember or are filing on behalf of one, there are a few things you should know before getting started.

- *File returns in your permanent home state.* If you are stationed somewhere other than your permanent home address, in most cases you will still pay state taxes to your home state. For instance, if your address of record is in Kansas, but you are stationed in California, you will file state taxes with Kansas. Spouses working outside their home of record in most cases will also have to file a state tax return for the state in which they are employed. See SCRA guidelines or check with your legal services office.
- *Access your tax statement online.* As a member of the Armed Forces, you can view and print out your W2 form before it is mailed to you.
 - Go to <https://mypay.dfas.mil/mypay.aspx>. You will need your personal identification number (PIN) to access your W2 form.
- *Be sure to have power of attorney if filing for a deployed servicemember.* Attach a copy of your power of attorney to your tax return. You may use IRS Form 2848, Power of Attorney and Declaration of Representative. The form can be found at the IRS Web site, www.irs.gov.
- *Find answers to your questions on the IRS Web site.* The IRS has a detailed tax guide for members of the Armed Forces (See <https://www.irs.gov/uac/Tax-Information-for-Members-of-the-U.S.-Armed-Forces>).

Combat Zone and Hazardous Duty Tax Deadline Extensions

The IRS extends filing deadlines for members of the Armed Forces for the following reasons:

- You or your spouse are serving in a combat zone or in direct support of those in the combat zone and receive hostile fire or imminent danger pay. The deadline for filing income taxes is 180 days after your last day in the combat zone or hazardous duty area. Go to the IRS Web site for a list of combat zones. In addition to the 180 days, the extension includes the number of days left in the filing period when you entered the combat zone or hazardous duty area. The filing period is January 1 through April 15. So, if you or your spouse entered the combat zone on March 31, you would add 15 days to your 180-day tax filing extension.
- You or your spouse are hospitalized outside of the United States as a result of injuries suffered in a combat zone or hazardous duty area. The deadline is 180 days after discharge from the hospital. Note that the extension does not apply to the spouse if the servicemember is hospitalized in the United States.

The U.S. Department of Defense notifies the IRS of your deployment to a combat zone but you may want to notify the IRS directly through its special e-mail address. E-mail the deployed member's name, stateside address, date of birth, and date of deployment to combatzone@irs.gov or call the IRS main helpline at 800-829-1040. If the IRS sends a notice regarding a collection or examination, return it to the IRS with the words, "Combat Zone" and the deployment date in red at the top of the notice so the IRS will suspend the action. Write, "Combat Zone" on the envelope as well.

Getting Servicemember Tax Help

Servicemembers and their families can get help at many installations worldwide through the Voluntary Income Tax Assistance program (VITA). Check with your legal center to see if this service is available at your installation. VITA volunteers understand military pay situations, such as Combat Zone pay, and they will help you file your taxes free of charge. Go as early before the filing deadline as possible to avoid long lines. For more information on VITA services go to www.militaryonesource.mil. If you decide to see a private tax preparer, make sure he or she is familiar with the IRS Armed Forces' Tax Guide and has experience filing returns for servicemembers and their dependents.

Tax Free Income in a Roth IRA

Saving in a Roth IRA can be a particularly good deal if you're receiving tax-free Combat Zone Pay. In that case, your money goes into the Roth tax-free and your contributions as well as your earnings come out tax-free (as long as you meet certain IRS guidelines), a double tax benefit that's tough to beat. Check with your legal assistance center or a financial professional to see if a Roth IRA is for you.

10 Percent Guaranteed Savings Plan

Usually, the words "guaranteed 10 percent returns" are a warning to run away from a scam. But the military's Savings Deposit Program is no rip-off. Deployed servicemembers in SDP-eligible combat zones who are also receiving Hostile Fire Pay can invest up to \$10,000 in the program and receive 10 percent annual interest. This benefit lasts while you are deployed and for 90 days after you return. You can't contribute to the plan until you're deployed at least 30 consecutive days (or at least one day in each of three consecutive months), but you should try to stockpile some money beforehand so you can contribute as much as possible as soon as you are eligible. You don't want to miss the chance to pocket 10 percent interest. For more information, see the Savings Deposit Program at the Defense Finance and Accounting Web site (www.dfas.mil/militarymembers/payentitlements/sdp.html).

Thrift Savings Plan

The Thrift Savings Plan (TSP) is a retirement savings and investment plan for members of the uniformed services, including the Ready Reserve. The TSP is a supplement to military retirement pay and offers the same types of savings and tax benefits that some private corporations offer their employees under 401(k) plans. The retirement income you receive from your TSP account depends on how much you put into your account during your working years, and the amount of earnings accrued during that time. You may choose traditional (pre-tax) or Roth (after tax) tax treatment for your program. Participation is not automatic. You must make the election through your Personnel Office and they will set up your payroll deduction to begin your TSP account. For more details, go to www.tsp.gov.

Be Aware of Financial Scams

If getting ready for deployment is the first step in financial fitness, the next task is protecting yourself and family from military financial scams. Military personnel are prime targets for financial criminals who want a piece of the troops' regular paychecks and have mastered ways to take advantage of their frequent moves.

These consumer predators know that servicemembers have to deal with unique pressures, such as spending extended periods of time abroad, moving multiple times and being held to a higher standard for debt repayment under the Uniform Code of Military Justice. In addition, servicemembers are known for having a steady income and trying to do what is best for their families. Troops have been exploited by exorbitant interest rate payday loans, high-fee investments, unsuitable life insurance, ID-theft schemes and bogus products promoted with counterfeit military connections.

State and federal regulators and the Department of Defense have cracked down on the crooks, and new laws and resources help protect members of the military from being pressured into high-fee loans, investments and insurance. But ever-creative scam artists scheme to stay a step ahead of new laws. It is your duty to learn all you can and protect your family from the latest generation of financial fraud.

Predatory Lending

The commercial strips around many bases used to be lined with payday lenders. There you could find a short-term loan against your next paycheck, often for outrageous interest rates sometimes exceeding 400 percent, but the Military Lending Act capped payday-loan rates at 36 percent for members of the military on active duty and their dependents, which led many lenders offering payday loans to disappear.

The Military Lending Act mainly targets two products: payday loans, usually two-week loans with annual percentage rates often above 400 percent, and auto-title loans, typically one-month loans with rates above 100 percent and secured by the borrower's vehicle. The law caps all covered loans at a 36 percent annual rate. This is a step in the right direction, but in practice, the law has defined the types of covered loans so narrowly that it's been all too easy for lenders to circumvent it. Some lenders discovered ways around the law, offering varieties of high-rate loans that aren't subject to the 36 percent cap. For example, some car dealers near bases have been known to push high-rate loans with big upfront fees. Some payday lenders have taken to the Internet to continue to offer expensive loans targeting troops, outside the reach of regulators. And some offer open-ended loans with rates as high as 136 percent, which fall through a loophole in the law.

Members of the military can lose their security clearances for falling into debt. As a result, experts say, servicemembers often avoid taking financial problems to their superior officers and instead resort to high-cost loans they don't fully understand.

A 400 Percent Loan – A True Story

In June 2011, when a 37-year-old staff sergeant in the Marines walked into a car Title Loan establishment in Columbia, S.C., it was the first time he'd ever gone to such a place, but needed the money right away for mounting bills.

They agreed to lend him \$1,600. In return, the sergeant handed over the title to his 1998 Ford SUV and a copy of his keys. The sergeant recalled the saleswoman telling him he'd probably be able to pay off the loan in a year. He said he did not scrutinize the contract he signed that day.

If he had, the sergeant would have seen that in exchange for that \$1,600, he'd agreed to pay a total of \$17,228 over two and a half years. The loan's annual percentage rate, which includes interest and fees, was 400 percent.

The sergeant said he provided his military ID when he got the loan. But even with an annual rate as high as a typical payday loan, the Military Lending Act didn't apply. The law limits the interest rate of title loans — but only those that have a term of six months or less. The sergeant fell behind after only a couple of payments. Less than five months after he took out the loan, a repo company came in the middle of the night to take his car. Three weeks later, it was sold at auction.

Today, plenty of payday and auto-title lenders cluster near Fort Jackson, an army base in Columbia, SC, legally peddling high-cost loans to the more than 36,000 servicemembers who receive basic training there each year. Loans similar to the one the sergeant took out are broadly and legally available from stores and over the Internet.

Avoiding High Interest Predatory Lending – What you Can do

- *Emergency-relief Fund.* Get a 0 percent loan through a military emergency-relief fund. Each branch of the military has an emergency-relief fund that offers small interest-free loans for emergencies. Contact the community service office at your base for details, or visit Army Emergency Relief (www.aerhq.org), Navy-Marine Corps Relief Society (www.nmcrrs.org), Air Force Aid Society (www.afas.org) or Coast Guard Mutual Assistance (www.cgmahq.org).
- *Build an Emergency Fund.* You're best off if you can avoid borrowing for unexpected expenses. Build an emergency fund with at least six months' worth of expenses in a safe and liquid account, such as a money market account.
- *Get credit counseling.* If you have to borrow to cover your expenses, you may be grappling with a bigger issue than a short-term emergency. Consider meeting with a financial-planning manager on base or a credit counselor who can help you set up a budget, pay down debt and prioritize your spending. You can find a credit counselor through the National Foundation for Credit Counseling (www.nfcc.org) or the Association of Independent Consumer Credit Counseling Agencies (www.aiccca.org). Credit unions and other financial institutions on base are required to offer counseling services at no charge. But beware of "credit repair" firms that charge high upfront fees with a promise to get you out of debt.

Unsuitable Insurance

For years, it has been common practice for private companies to sell life insurance and mutual funds investments to young servicemembers who may not need or be able to afford it. Some insurance agents try to use high-pressure tactics to maneuver military personnel into purchasing insurance they don't need. Agents are now barred from trying to sell insurance at mandatory-attendance meetings on base, and they can't use senior personnel to help them pitch their policies. But outside the gates, many insurance agents still try to convince service personnel to buy inappropriate insurance. Instead, consider maxing out your government-provided insurance. The Servicemember's Group Life Insurance (SGLI) provides outstanding insurance at a great price.

Avoid Insurance Scams – What you can do

- *Max out your military insurance first.* Servicemembers' Group Life Insurance, or SGLI, costs only 6.5 cents per \$1,000 of coverage per month, or \$312 per year for the maximum \$400,000, regardless of your age or health. You can also get up to \$100,000 in coverage for your spouse. If you are automatically insured by full-time SGLI, you are automatically covered by Traumatic SGLI (TSGLI), in most cases at a rate of \$1 per month. Not just for combat injuries, TSGLI covers injuries suffered both on and off duty. TSGLI coverage applies retroactively to some injuries that occurred between 7 OCT 2001 and 30 NOV 2005, regardless of where the injury occurred or whether coverage was in effect at the time. For further qualifying details go to <http://benefits.va.gov/insurance/tsgli.asp>
- *Check out insurers and agents with your state insurance department* if you need to buy additional coverage. Ask about licensing, complaints and disciplinary actions. Make sure the policy doesn't have a war exclusion. Report problems to insurance regulators and to the community-service office at the base.

Investment Scams

Deployment pay... a reenlistment bonus... retirement pay are events that puts cash into the hands of a servicemember and represent an opportunity for an unscrupulous investment advisor. Investment fraud

criminals use a wide array of sophisticated and highly effective tactics to get people to part with their money. Despite recent crackdowns on companies that target members of the military for investments that carry high fees, military personnel remain at risk. Roth IRAs and the military's Savings Deposit Program are among the safest ways to protect your hard-earned dollars. Check with a financial professional to see if either of these options are for you.

Avoid Investment Scams – What you can do

- *Don't invest until you investigate.* Learn at least the basics before risking your dollars. Both www.investor.gov and www.finra.org provide a great place to start, each offering tools and resources for the beginner. Prior to purchasing any type of investment product you can check for any disciplinary actions against brokers and advisors for free at U.S. Securities and Exchange Commission, www.sec.gov or Financial Industry Regulatory Authority, FINRA, www.finra.org. Their databases could help you identify red flags before you invest.
- *Slow down and take your time.* Don't make a quick decision no matter how enticing the investment appears. Most fraud occurs because the con artist talks the victim into making a "rushed" decision.
- *Don't be too trusting.* Often, the nicer and more professional the salesperson appears, the greater the con artist.
- *Don't invest more than you can afford to lose.* How much are you willing to lose if the investment turns out to be a scam? Are you investing your entire life savings? Never put all your eggs in one basket.
- *Ask for written information about the organization behind the investment.* Make sure you clearly understand and receive a written copy of the investment.
- *Report investment fraud.* If you suspect a fraudulent investment scheme, do not hesitate to report it: Financial Fraud Enforcement Task Force, 202-514-2000 or ffetf@usdoj.gov; U.S. SEC, 800-732-0330 or www.sec.gov; FINRA, 301-590-6500 or www.finra.org; or your state securities regulator.

Identity Theft

When your day job is protecting our country, you shouldn't have to worry about being attacked by identity thieves. However, military families are magnets for identity thieves because their social security numbers are widely available (although the Department of Defense is gradually reducing the public use of the identifier), and troops can be hard-pressed to monitor their credit records and bills when they're deployed. While phishing is a growing problem everywhere, military families can be particularly susceptible to calls or e-mails that purport to be from financial institutions regarding a deployed servicemember's account.

Avoiding Identity Theft – What you can do

- Read your credit reports. You have a right to a free credit report every 12 months from each of the three nationwide credit reporting companies. Order all three reports at once, or order one report every four months. To order, go to www.annualcreditreport.com or call 1-877-322-8228.
- Read your bank, credit card and account statements, and the explanation of medical benefits from your health plan. If a statement has mistakes or doesn't come on time, contact the business.
- Shred all documents that show personal, financial and medical information before you throw them away.
- Don't respond to email, text and phone messages that ask for personal information. Legitimate companies don't ask for information this way. Delete the messages.
- Create passwords that mix letters, numbers, and special characters. Don't use the same password for more than one account.
- If you shop or bank online, use websites that protect your financial information with encryption. An encrypted site has "https" at the beginning of the web address; "s" is for secure.

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- If you use a public wireless network, don't send information to any website that isn't fully encrypted.
 - Use anti-virus and anti-spyware software, and a firewall on your computer.
 - Set your computer's operating system, web browser, and security system to update automatically.
 - Put an "active duty alert" on your credit report if you're deployed and don't expect to seek new credit. The alert requires creditors to take steps to verify your identity before granting credit in your name. It lasts for a year but can be renewed. Call the fraud department of one credit reporting company; they must contact the other two.

Affinity Fraud

Affinity fraud refers to investment scams that prey upon members of identifiable groups, often religious or ethnic communities. The fraudsters who promote affinity scams frequently are – or pretend to be – members of the group. They often enlist respected leaders from within the group to spread the word about the scheme, by convincing those people that a fraudulent investment is legitimate and worthwhile. Many times, those leaders become unwitting victims of the fraudster's ruse.

These scams exploit the trust and friendship that exist in groups of people who have something in common. Because of the tight-knit structure of many groups, it can be difficult for regulators or law enforcement officials to detect an affinity scam. Victims often fail to notify authorities or pursue their legal remedies, and instead try to work things out within the group. This is particularly true where the fraudsters have used respected community or religious leaders to convince others to join the investment.

While fraudsters often target church congregations, immigrants or ethnic groups, military families are also vulnerable, especially if the fraudster is serving right beside you. From the first day of basic training, military culture instills esprit de corps and emphasizes trust. You are also likely to share a number of personal characteristics with others who serve with you – the same values, the same age, the same haircut and the same pay grade to name a few.

Many affinity scams involve "Ponzi" or pyramid schemes, where new investor money is used to make payments to earlier investors to give the false illusion that the investment is successful. This ploy is used to trick new investors to invest in the scheme and to lull existing investors into believing their investments are safe and secure. In reality, the fraudster almost always steals investor money for personal use. Both types of schemes depend on an unending supply of new investors. When the inevitable occurs, and the supply of investors dries up, the whole scheme collapses and investors discover that most or all of their money is gone.

Avoiding Affinity Fraud – What you can do

- *Check Credentials.* Smart investors check out the background of anyone promoting an investment opportunity – even before learning about opportunity itself. Fortunately, it's easy to find information that can help you protect your investment dollars. To check out the background of an investment professional, visit www.investor.gov or call the SEC's toll-free investor assistance line at (800) 732-0330.
- *Making sure investment is registered.* Smart investors always check whether an investment is registered with the SEC by using the SEC's EDGAR database or contacting the SEC's toll-free investor assistance line. Any offer or sale of securities must be registered, or exempt from registration. Registration is important because it provides investors with access to key information about the company's management, products, services, and finances. If an investment is not registered with the SEC, find out if it is registered with your state securities regulator. If you can't find any record that it is registered with the SEC or your state, or that it's exempt from registration, call or write your state's securities regulator or the SEC immediately with all the details. You may have come face to face with a scam.

The key to avoiding financial scams is to ask questions, investigate and compare and make the best decision for you and your family.

Manage Your Money Wisely

With frequent moves and the potential for overseas deployment, military personnel and their families face unique challenges when it comes to managing their money and saving for the future.

Money problems can result in losing a security clearance, or even bring your career to a halt. Even if it doesn't get that far, you can't afford to be distracted by money troubles when you're busy trying to protect our country!

Managing money during an overseas deployment

Online banking has made it easier to monitor money and transfer funds during deployment, however; logging in to one's investment accounts while stationed in Afghanistan doesn't always work because of anti-fraud security measures used by some financial institutions. Check with your financial institution prior to deployment, or use a military-friendly company such as USAA, Navy Federal Credit Union or some other federal credit union because they understand the challenges of managing money overseas. You can find federal credit unions near you around the world through the National Association of Federal Credit Unions, www.nafcu.org, "How Can I Find a Credit Union?" which uses www.CULookup.com.

Managing Money while moving every few years

Frequent relocations are part of military life, but they can make it difficult for servicemembers to adjust to higher living expenses. Faced with the option of using their housing allowance to rent or buy, some service members opt to buy a house and then sell or rent it out once they're reassigned. Whether you decide to rent or buy, research the housing market where you're stationed and make a financially smart housing decision.

Spend less than you earn

Many new recruits get swept away by their first real paycheck, but they don't understand how easy it is to spend it all and have nothing to show for it. A few small monthly payments add up quickly. A cell phone, car payment, car insurance, gas, internet, cable, and other services can easily add up to several hundred dollars per month – making your paycheck disappear more quickly than you thought it would. Set up a basic budget by tracking your spending for the first few months to help you get an idea of how much money you are bringing in after taxes and how much you are spending on regular expenses (the bills mentioned above) and irregular expenses such as haircuts, uniform expenses, eating out, etc. Then you will have a good idea of how much you can spend without spending too much every month.

Build an emergency fund

Start an emergency fund to be used for any unexpected expense that needs to be handled quickly. You should keep it in a regular savings account so you have access to it quickly, but you shouldn't use the funds for things like pizza and beer. It should only be used for emergencies.

Save money

In addition to an emergency fund you will want to save money for other things. It's better to have some money saved so you don't have to go into debt.

Avoid Debt

Once you have your basic budget working, try to stick to it to avoid getting into debt. Debt can have a negative impact on your financial future, and excessive debt can get you discharged from the military. If you can't afford it, then wait until you can.

Be careful with credit cards

Credit cards are good when used as a tool, but they can get you into a lot of trouble very quickly if you are not careful. Be sure to only charge as much as you can pay off each month.

Build a good credit score

Responsible use of credit and credit cards can help you establish a good credit score and save you thousands of dollars later in life, because you will be able to obtain loans at more favorable interest rates.

Start saving for the future

The military pension plan is one of the most generous retirement systems you will ever find. But you may not stay in the military long enough to earn military retirement (20 years); start saving and investing for your future by opening a Roth IRA or participating in the Thrift Savings Plan (government version of a 401k plan). Even a couple hundred dollars in savings per year can grow into thousands of dollars by the time you reach retirement age.

Managing a military bonus

Many new recruits or military members who reenlist will receive a bonus. There are a lot of things you can do with your bonus. It is common to think of all the things you can do with the money and then trick yourself into believing you can do all of them. Before spending your money think about any debts you might have, you're needs, and your wants. Put a large portion of your bonus toward any debts you have. If you don't have any debt, then use a large portion of your bonus to start an emergency fund (say \$1,000 or so), then consider saving for things you may need, such as working toward a large ticket item like a car, or something similar. The last thing you want to do is not have anything to show for it.

Military Bonus Case Study

John Doe is reenlisting in the military next week and will be receiving a \$28,000 reenlistment bonus and wasn't sure exactly what to do with it.

Here is John Doe's financial situation

- \$17,000 credit card debt.
- \$1,500 left on a consumer loan with an initial zero interest for the first 12 months.
- \$15,000 car loan, at 6 percent.
- He rents, with no plans to buy a house any time soon.
- He will allocate 25 percent of his bonus to his Thrift Savings Plan (TSP).

Calculations (The following are estimates only)

- The TSP contribution is immediately taken out of the full \$28k, leaving \$21k.
- Military bonuses are usually taxed at 25 percent. Subtracting 25 percent for taxes leaves him with about \$15,750.

Here is what John Doe planned to do with his money

- Immediately invest 25 percent (\$7,000) into his retirement fund – TSP.
- Pay taxes.
- Pay off his zero interest loan (it is small and will soon be over 20 percent).
- Pay the remainder toward his credit card debt.
- Make additional payments toward any remaining credit card debt.
- Once the credit card debt is paid off, begin making additional payments on the car loan.

On the right track

John Doe is on the right to managing his money and utilizing his hard-earned military reenlistment bonus to becoming debt free.

The VA Home Loan Program Overview

The Department of Veterans Affairs helps servicemembers, Veterans and eligible surviving spouses become homeowners. As part of the VA's mission to serve its target audiences, they provide a home loan guaranty benefit and other housing-related programs to help buy, build, repair, retain or adapt a home for personal occupancy. The VA Home Loans are provided by private lenders, such as banks and mortgage companies. VA guarantees a portion of the loan, enabling the lender to provide more favorable terms.

VA Home Loan Program History

The Servicemen's Readjustment Act, (GI Bill of Rights), which dramatically transformed the concept of veterans benefits, was signed into law by President Franklin D. Roosevelt on June 22, 1944. Among other things, this benefit provided veterans with federally guaranteed home, farm and business loans with no down payment. This feature was designed to generate jobs in the housing industry while providing housing and assistance for veterans and their families. The GI Bill transformed the economy and society of the United States. The dream of homeownership became a reality for millions of veterans and their families. The GI Bill has contributed more than any other program in history to the welfare of veterans and their families, and to the growth of the nation's economy.

The Meaning of a "VA Guaranteed" Loan

The Veterans Administration (VA) is not a bank. The VA does not loan the money, fund the loan, or service the loan. VA "stands behind" the loan by guaranteeing a portion of it. If something goes wrong and the borrower can't make the payments anymore, the lending institution can come to the VA to cover any losses they might incur. As long as the lender followed proper underwriting protocol, should the loan ever go into default, the lender is entitled to 25 percent of the loan amount. The guaranty replaces the protection the lender normally receives by requiring a down payment or mortgage insurance and allows Veterans the ability to obtain favorable financing terms. Most VA Home Loans are handled entirely by private lenders and VA rarely gets involved in the loan approval process.

Benefits of a VA Home Loan

The VA loan is one of the best options out there for qualified Veterans. No money down, easier qualification guidelines, flexibility and no MI. The list goes on and on as to the many benefits of the VA Home Loan.

Here are some of the best benefits in comparison to other loan programs:

- Reusable – it can be used over and over again
- Flexible – a Veteran can have more than one VA loan at a time
- Versatile – a Veteran can purchase with another Veteran or even a non-Veteran
- Zero down payment required
- No Private Mortgage Insurance (PMI)
- The VA Loan is Assumable
- There is a lower risk due to the government guaranty so lower interest rates

VA Home Loan Buying Process

- **Contact a HUD-approved housing counseling agency to prepare for the homebuying process.** A list of HUD-approved housing counseling agencies in your area is available at <http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm>
- **Secure a real estate professional who knows how to work with military servicemembers.** Servicemembers and Veterans should find a real estate professional to work with. Someone who has a basic knowledge of the armed forces and VA Home Loan Program. The real estate professional is essential and will guide the servicemember or Veteran through the maze known as the home buying process.

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- **Find a participating VA lender.** Locate a lending institution that participates in the VA program. Borrowers may want to get “pre-qualified” at this point - that is, find out how big a loan you can afford. Lenders set their own interest rates, discount points and closing points so borrowers may want to shop around.
 - **Get a Certificate of Eligibility (COE).** The Certificate of Eligibility (COE) verifies to the lender that the borrower meets the eligibility requirements for a VA loan.
 - **Find a Home and Sign a Purchase Agreement.** Work with a real estate professional and negotiate a purchase agreement. Make sure the purchase and sales agreement contains a “VA Option Clause.”
 - A sample of a “VA Option Clause:” “It is expressly agreed that, notwithstanding any other provisions of this contract, the purchaser shall not incur any penalty by forfeiture of earnest money or otherwise be obligated to complete the purchase of the property described herein, if the contract purchase price or cost exceeds the reasonable value of the property established by the Department of Veterans Affairs. The purchaser shall, however, have the privilege and option of proceeding with the consummation of this contract without regard to the amount of the reasonable value established by the Department of Veterans Affairs.”
 - **Apply for a VA Loan.** Work with the lender to complete a loan application and gather the needed documents, such as pay stubs and bank statements.
 - **Loan Processing.** The lender orders a VA appraisal and begins to “process” all the credit and income information.
 - **Closing.** The lender chooses a title company, an attorney or one of their own representatives to conduct the closing. This person will coordinate the date/time and the property is transferred. If the borrower has any questions during the process that the lender can’t answer to satisfaction, please contact the VA through the VA Regional Loan Center.

Basic Requirements for a VA Loan Approval

- The applicant must be an eligible Veteran who has available entitlement, and a valid Certificate of Eligibility (COE).
- The loan must be for an eligible purpose.
- The Veteran must occupy the property as a primary residence within a reasonable period after the loan closes.
- The Veteran must be a satisfactory credit risk.
- The income of the borrower(s) must be shown to be stable and sufficient to meet the mortgage payments and cover the cost of owning a home while taking care of other obligations and expenses and still have enough money left over to support their family.

VA Loan Occupancy Requirement

The law requires a veteran obtaining a VA-guaranteed loan to certify that he or she intends to personally occupy the property as his or her home. As of the date of certification, the Veteran must either:

- Personally live in the property as his or her home, or
- Intend, upon completion of the loan and acquisition of the dwelling, to personally move into the property and use it as his or her home within a reasonable time.

Persons Eligible for VA Loan

In order to obtain a VA home loan, you must first fill out VA Form 26-1880, the request for your Certificate of Eligibility. This Certificate is issued only through the Veterans Administration, and is the first step towards applying for your loan. Veterans, active duty, guard or reserve, and military spouses potentially qualify for this certificate. Keep in mind that the Certificate of Eligibility, while necessary, only allows an eligible individual to apply for a home loan; it does not guarantee a loan approval.

Eligibility for the Certificate is based on an individual's (or a spouse's) military service. Congress establishes eligibility with strict guidelines. Here are five common categories of those who normally qualify for a Certificate of Eligibility:

- **Active Duty** – 90-Day Rule or Six Month Rule – A Veteran is eligible for VA home loan benefits if he or she served on active duty in the Army, Navy, Air Force, Marine Corps or Coast Guard after September 15, 1940, and was discharged under conditions other than dishonorable after either:

- 90 days or more, any part of which occurred during wartime, or
- 181 continuous days or more (peacetime).

Two Year Rule if not on Active Duty – 2-year Requirement: A greater length of service is required for Veterans who:

- Enlisted (and service began) after September 7, 1980, or
- Entered service as an officer after October 16, 1981.

These Veterans must have completed either:

- 24 continuous months of active duty, or
- The full period for which called or ordered to active duty, but not less than 90 days (any part during wartime) or 181 continuous days (peacetime).

- **Reserves** – Members of the Reserves and National Guard who are not otherwise eligible for loan guaranty benefits are eligible upon completion of six years' service in the Reserves or Guard (unless released earlier due to a service-connected disability). The applicant must have received an honorable (a general or under honorable conditions is not qualifying) discharge from such service unless he or she is either:

- In an inactive status awaiting final discharge, or
- Still serving in the Reserves or Guard.

- **Surviving Spouses of Veterans** – Some spouses of Veterans may have home loan eligibility, as follows:

- The unmarried surviving spouse of a Veteran who died as a result of service or service-connected causes,
- The surviving spouse of a Veteran who dies on active duty or from service connected causes, who remarries on or after age 57 and on or after December 16, 2003, and
- The spouse of an active duty member who is listed as MIA or a POW for at least 90 days. Eligibility under this MIA/POW provision is limited to one time use only.
- Surviving spouses of Veterans who died from non-service connected causes may also be eligible if certain conditions are met:
 - The Veteran was rated totally disabled for 10 years or more immediately preceding
 - death; or
 - Was rated totally disabled for not less than five years from date of discharge or release from active duty to date of death, or
 - The Veteran was a former prisoner of war who died after September 30, 1999, and was rated totally disabled for not less than one year immediately preceding death.

Exceptions to Length of Service Requirements

There are numerous exceptions to the length of service requirements outlined in this section. For example, one day of service is sufficient for an individual who is discharged or released from service (regular active duty or Reserve/Guard) due to a service-connected disability.

The Certificate of Eligibility (COE)

Veterans and active-duty service members must first obtain a Certificate of Eligibility (COE) from VA. The COE is a formal document that certifies that the borrower has a VA entitlement and is eligible to participate in the program. An entitlement is the amount of money the Veterans Administration will guarantee on a loan.

Procedure Veteran Ordering their Own 26-1880 (COE): If you have a Veteran who prefers to order his or her own COE, there are two options:

1. Complete a VA Form 26-1880, Request for a Certificate of Eligibility online through eBenefits. Visit: www.eBenefits.va.gov.
2. Submit a completed VA Form 26-1880, Request for a Certificate of Eligibility to the Atlanta Eligibility Center, along with proof of military service.

Mailing address: VA Loan Eligibility Center
 PO Box 100023
 Decatur, GA 30031
 Phone # (888) 768-2132

Evidence needed to get a COE:

- Veteran or current or former National Guard or Reserve member who has been activated federal active service: DD Form 214.
- Active Duty servicemember: A current statement of service – signed by (or by the direction of): the adjutant, personnel office or commander of the unit or higher headquarters showing:
 - Full name;
 - Social Security Number;
 - Date of birth;
 - Entry date on active duty;
 - The duration of any lost time; and
 - The name of the command providing the information.
- Current National Guard or Reserve member who has never seen Federal active service: Statement of service – signed by (or by the direction of) the adjutant, personnel officer or commander of the unit or higher headquarters showing:
 - Full name;
 - Social Security Number;
 - Date of birth;
 - Entry date on duty;
 - The total number of creditable years of service;
 - The duration of any lost time; and
 - The name of the command providing the information.
- Discharged member of the National Guard who has never been activated for Federal active service: NGB Form 22, Report of Separation and Record of Service, for each period of National Guard service or NGB Form 23, Retirement Points Accounting, and proof of the character of service.

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- Discharged member of the Selected Reserve who has never been activated for Federal active service: Copy of the member's latest annual retirement point's statement and evidence of honorable service.
 - Surviving spouse of a servicemember who died on active duty: If the surviving spouse is already receiving Dependency and Indemnity Compensation (DIC), they don't need to send any documents.

OR

If the surviving spouse is not receiving DIC, please send:

- A copy of the DD Form 1300 (Report of Casualty) from the military;
 - A copy of the marriage certificate;
 - It would be a good idea to add a simple signed statement saying that surviving spouse would like to apply for DIC. If they qualify for the home loan benefit, they probably qualify for monthly payments under DIC; and
 - Put the servicemember's Social Security Number on all documents.
- Surviving spouse of a Veteran who died as a result of military service: If the surviving spouse is already receiving Dependency and Indemnity Compensation (DIC), send a copy of the award letter. (Generally, the surviving spouse will already have a record on file at a VA regional benefits office.)

OR

If the surviving spouse is not receiving Dependency and Indemnity Compensation (DIC), please send:

- A copy of the Veteran's DD Form 214;
- A copy of the Veteran's death certificate;
- A copy of your marriage certificate;
- The VA recommends the surviving spouse adds a simple signed statement saying that they would like to apply for DIC. If the surviving spouse qualifies for the home loan benefit, they probably qualify for monthly payments under DIC; and
- Put the Veteran's Social Security Number on all documents.

Types of VA Home Loan Guaranty Programs

VA offers a variety of home loan guaranty programs for Active Duty servicemembers, Veterans and National Guard and Reserve members including:

1. Purchase and cash-out refinance home loans;
2. Interest rate reduction refinance loans;
3. Native American direct loan; and
4. Adapted housing grants.

- **Purchase and Cash-Out Refinance Home Loans** – The VA Purchase Home Loan helps purchase a home at a competitive interest rate often without requiring a down-payment or private mortgage insurance. With a Purchase Loan, VA can help you purchase a home even if the borrower has found it difficult to find other financing.

The VA Cash-Out Refinance Loans are for homeowners who want to take cash out of their home equity to take care of concerns like paying off debt, funding school, or making home improvements. The Cash-Out Refinance Loan can also be used to refinance a non-VA loan into a VA loan. The VA will guaranty loans up to 100 percent of the value of your home.

VA Jumbo Loan – If you are purchasing a property in a high cost market, you may be eligible for a VA Jumbo loan. A VA Jumbo loan is available to VA eligible borrowers who qualify with income and credit requirements, as well as the VA county limit requirement. To learn the loan limit for your county, visit http://www.benefits.va.gov/HOMELOANS/purchaseco_loan_limits.asp.

- **Interest Rate Reduction Refinance Loan (IRRRL)** – The Interest Rate Reduction Refinance Loan (IRRRL) also called the “Streamline Refinance Loan” can help obtain a lower interest rate by refinancing the existing VA loan. By obtaining a lower interest rate, your monthly mortgage payment should decrease. You can also refinance an adjustable rate mortgage (ARM) into a fixed-rate mortgage.

IRRRL Facts

- No appraisal or credit underwriting package is required when applying for an IRRRL
 - An IRRRL may be done with “no money out of pocket” by including all costs in the new loan or by making the new loan at an interest rate high enough to enable the lender to pay the costs
 - When refinancing from an existing VA ARM loan to a fixed-rate loan, the interest rate may increase
 - No lender is required to give you an IRRRL; however, any VA lender of your choosing may process your application for an IRRRL
 - Veterans are strongly urged to contact several lenders because terms may vary
 - You may NOT receive any cash from the loan proceeds
 - An IRRRL can only be made to refinance a property on a Veteran who has already used his or her VA loan eligibility. It must be a VA to VA refinance, and it will reuse the entitlement the Veteran originally used.
 - A Certificate of Eligibility (COE) is not required. If the Veteran has his or her Certificate of Eligibility, he or she should take it to the lender to show the prior use of the entitlement.
 - No loan other than the existing VA loan may be paid from the proceeds of an IRRRL. If the Veteran has a second mortgage, the holder must agree to subordinate that lien so that new VA loan will be a first mortgage.
 - The Veteran may have used his or her entitlement by obtaining a VA loan when he or she bought a house, or by substituting their eligibility for that of the seller, if they assumed the loan.
 - The occupancy requirement for an IRRRL is different from other VA loans. For an IRRRL the Veteran need only certify that they previously occupied the home.
- **Native American Direct Loan (NADL)** – The Native American Direct Loan (NADL) Program helps eligible Native American Veterans finance the purchase, construction or improvement of homes on Federal Trust Land, or reduce the interest rate on a VA loan.

NADL Facts

- Eligible Native American Veterans can use these direct loans to simultaneously purchase and improve a home or to refinance another. VA direct loan made under NADL to lower the interest rate.
 - These loans are only available if a Memorandum of Understanding exists between the tribal organization and VA.
 - Veterans who are not Native American, but who are married to Native American non-Veterans, may be eligible for a direct loan under this program. To be eligible, the qualified non-Native American Veteran and the Native American spouse must reside on Federal Trust Land.
 - VA direct home loans are available to eligible Native American Veterans who wish to purchase or construct a home on trust lands.
- **Housing Grants for Disabled Veterans** – VA provides grants to servicemembers and Veterans with

certain permanent and total service-connected disabilities to help purchase or construct an adapted home or modify an existing home to accommodate a disability. Two grant programs exist: the Specially Adapted Housing (SAH) grant and the Special Housing Adaptation (SHA) grant.

- Specially Adapted Housing (SAH) Grant – SAH grants help Veterans with certain service-connected disabilities live independently in a barrier-free environment. SAH grants can be used in one of the following ways:
 - Construct a specially adapted home on land to be acquired.
 - Build a home on land already owned if it is suitable for specially adapted housing.
 - Remodel an existing home if it can be made suitable for specially adapted housing.
 - Apply the grant against the unpaid principal mortgage balance of an adapted home already acquired without the assistance of a VA grant.
- Special Housing Adaptation (SHA) Grant - SHA grants help Veterans with certain service-connected disabilities adapt or purchase a home to accommodate the disability. The SHA grants can be used in one of the following ways:
 - Adapt an existing home the Veteran or a family member already owns where the Veteran lives.
 - Adapt a home the Veteran or family member intends to purchase where the Veteran will live.
 - Help a Veteran purchase a home already adapted where the Veteran will live.

If you are a servicemember or Veteran with a permanent and total service-connected disability, you may be entitled to a Specially Adapted Housing (SAH) grant or a Special Housing Adaptation (SHA) grant. Please visit the VA website at <http://www.benefits.va.gov> for more detailed eligibility information. Need more information or have questions? Contact a Specially Adapted Housing (SAH) staff member via email at sahinfo.vbaco@va.gov or by phone at (877) 827-3702.

VA Funding Fee

The VA funding fee is required by law. The funding fee is a percentage of the loan amount which varies based on the type of loan and Veteran military category, if borrower is a first-time or subsequent loan user and whether they make a down payment. Borrowers have the option to finance the VA funding fee or pay it in cash, but the funding fee must be paid at closing time.

A Veteran does not have to pay the fee if they are:

- A Veteran receiving VA compensation for a service-connected disability; OR
- A Veteran who would be entitled to receive compensation for a service-connected disability if they did not receive retirement or active duty pay; OR
- A surviving spouse of a Veteran who died in service or from a service-connected disability.

Loan Limits

VA does not set a cap on how much you can borrow to finance a home. However, there are limits on the amount of liability VA can assume, which usually affects the amount of money an institution will lend you. The loan limits are the amount a qualified Veteran with full entitlement may be able to borrow without making a down payment. These loan limits vary by county, since the value of a house depends in part on its location. Interest rates are subject to change due to market fluctuations. VA evaluates these market trends and determines if interest rate reductions or increases are warranted. Since the loan limits are vary upon county, please verify the loan limit of the county where the borrowers wants to purchase a home by call the VA Regional Loan Center.

VA and Credit Score

A good credit score is an excellent starting point for anyone considering a VA loan. A credit score is a mathematical calculation that assigns a number for you between 300 (worst scenario) and 850 (best scenario). This number is used to determine an individual's creditworthiness and the likelihood that the borrower will pay his or her debts. The lower your score the "riskier" lenders view a borrower; therefore, the harder they will likely find it to get a loan. One of the best benefits of the VA loan program is its relaxed credit requirements. Potential borrowers needn't possess blemish-free credit reports and elite credit scores to secure VA financing. The VA loan program seeks to accommodate as many military buyers as possible with a simple and accessible mortgage. VA Loan Providers typically shy away from anyone with a FICO Score lower than 620. Potential VA loan borrowers needn't abandon their dreams of homeownership due to a low credit score. The best feature of credit is its fluidity. Credit changes constantly. Improve fiscal habits and the credit score will soar. Overall, there is no silver bullet that impacts your credit scores. It's always best to practice good financial management.

VA Loans and Defaulted Property Products

VA has a longstanding policy of encouraging servicers to work with Veteran borrowers to explore all reasonable options to help them retain their homes, or when that is not feasible, to mitigate losses by pursuing alternatives to foreclosure. For over 15 years, VA has paid incentives to servicers successfully completing alternatives to foreclosure, and beginning in 2008, VA started paying incentives to servicers for successful repayment plans, forbearance agreements and loan modifications. Recently, other incentives have been developed in the mortgage servicing industry to help encourage participation by homeowners in completing loss mitigation options. The US Department of Veterans Affairs urges all veterans who are encountering problems making their mortgage payments to speak with their servicers as soon as possible to explore options to avoid foreclosure. The VA will also help with negotiations for non-VA loans.

VA Home Loan Conclusion

The VA Loan program is the most powerful home loan program on the market for Veterans and military families. The flexible, government-backed loans come with significant benefits that open the doors of homeownership to Veterans who might otherwise struggle to obtain financing. VA-savvy lenders have intimate knowledge of every VA regulation and can provide immediate property guidance to military buyers. Veterans should access their state's Department of Veterans Affairs to explore other state specific VA home loan programs and/or state specific VA homeownership benefits.

To find out more details about the VA home loan program visit: <http://www.benefits.va.gov/homeloans>.





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