

VA LOANS AND  
**EMPLOYMENT**



WHAT LENDERS WANT  
AND BORROWERS NEED



## VA LOANS AND EMPLOYEMENT

This guide provides a detailed look at a variety of employment situations and explains how lenders will evaluate your client's employment status. Use this guide as a helpful tool for advising your client on how they can better strengthen their employment record.

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## Employment and income will be two major considerations in your client's quest to obtain VA home financing.

Lenders will look at how long your client has been employed, the types of jobs they've held and how many periods of unemployment are in their history. Checking a buyer's employment record gives lenders a clearer picture of their ability to repay a loan.

It's helpful for military borrowers to know there are no "pass/fail" employment criteria. Most applicants are examined on a case-by-case basis, and employment is only one piece of the total borrower evaluation. This comprehensive assessment provides flexibility for those with less-than-perfect resumes.

But at the end of the day, lenders are looking for three key traits regarding your client's employment and income status: that it's stable, reliable and likely to continue into the foreseeable future.

*Read on to find out how to bring any employment record up to VA standards.*

Rest assured that during the VA loan experience, your client will be treated as an individual. The VA encourages lenders to underwrite each loan on a case-by-case basis, relying on judgment, common sense and flexibility.

### SIGNATURE BENEFITS OF A VA LOAN

- ✓ No down payment
- ✓ No PMI (private mortgage insurance)
- ✓ Historically low interest rates
- ✓ Low closing costs
- ✓ No prepayment penalties



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## WHAT YOUR CLIENT WILL NEED TO PROVIDE

VA lenders will ask applicants to provide at least two years of employment records, including job titles and compensation details. The lender will then contact current and former employers for verification. Employers must sign off on the information provided, so loan applicants need to ensure their data is correct.

Loan applicants may also be asked to provide pay stubs from their current employer. Lenders vary in their requirements, but most ask for pay stubs covering at least the last 30 days. Tax returns may also be required, so it's good for applicants to have on hand their W-2s and complete individual tax returns for the past two years.

### VA LENDERS LIKE TO SEE:

Two years of consistent employment

Job-related training or education

Steady income

Positive recommendations from employers

## WHY YOUR CLIENT'S EMPLOYMENT HISTORY IS IMPORTANT

Lenders assess job stability for two big reasons. First, employment history says a lot about an applicant's financial ability to repay a loan. A reliable worker with a history of stable employment, will probably be able to handle a mortgage payment every month.

Secondly, employment records help a lender assess whether a borrower has the maturity and responsibility necessary to stand behind a 30-year mortgage. An applicant who has held a job for years is seen as trustworthy and reliable. Borrowers with long periods of unemployment or a history of job-hopping might not be prime loan candidates.

### “THE GOLD STANDARD” OF EMPLOYMENT

As we've mentioned, VA loan employment criteria are somewhat vague. Employment analysis is not an exact science, but rather a careful judgment call made by each lender.

But VA loan candidates should be aware of the “gold standard” of employment to a VA lender. That would be two years of reliable, full-time employment, ideally with the same employer. Anything less will trigger additional scrutiny.

Why the two-year benchmark? Mortgages generally involve 30-year commitments, so lenders opt for reliable, consistent earners. A two-year history of solid employment indicates to a lender that stable earnings should continue well into the future.



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# SPECIAL EMPLOYMENT SITUATIONS

Obviously a well-paid borrower with years of consistent employment will be a preferential VA loan contender. That's not to say there aren't options for those with other kinds of employment records. Let's take a look at special employment situations and how they're viewed by VA lenders.

## FULL-TIME WORKERS EMPLOYED LESS THAN TWO YEARS

Many responsible and capable individuals move to new jobs or have brief periods of unemployment, especially in a tough economy. It's relatively common for VA loan recipients to have some holes in their two-year employment history. Don't despair if your buyer has less than two years of consistent full-time employment under their belt.

*Underwriters will conduct a further investigation, with a focus on these indicators:*

- ★ **Applicant's past employment record**
- ★ **Applicant's training, education and qualifications for their position**
- ★ **Type of employment**
- ★ **Employer's confirmation of continued employment**

**Two years of employment is a good sign of dependable income. But that two-year period is not a required minimum. It's definitely possible for veterans with less than two years of consistent employment to qualify for VA financing. Read on to find out how.**

### TIP:

Lenders are more willing to work with borrowers who can explain gaps in employment. Did your client take a few months off to spend time with their newborn? Did relocation put their employment on hold? Don't be hesitant to clarify any misunderstandings regarding your clients employment record.



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## FULL-TIME WORKERS EMPLOYED LESS THAN ONE YEAR

Full-time applicants with less than one year of employment will have a tougher time gaining lender approval. In most situations, less than one year of employment is not considered adequate evidence of job stability.

But exceptions can be made, particularly when warranted by an applicant's job skills or training. For example, law school graduates or newly certified nurses with little time on the job may be able to secure financing because they have the education necessary to sustain long and successful careers.

*When all else fails, be patient. Within a year, your client's employment records will be up to par and their chances of obtaining VA financing will improve.*

## SELF-EMPLOYMENT

Self-employment can provide incomparable flexibility and freedom in life. But it can also prove a significant stumbling block when it comes to borrowing money.

Self-employment income has a tendency to be less consistent than income from a salaried position. That uncertainty can make lenders nervous. To ensure that self-employed applicants have a solid business and a reliable source of income, lenders will ask for a hefty amount of documentation.

### TIP:

With a short job history, applicants need to do all they can to impress a lender. Make sure they meet all other loan requirements. They may consider asking their employer to provide a letter on their behalf, showing that their employment is stable and expected to continue.

### SELF-EMPLOYED APPLICANTS MAY NEED TO PROVIDE:

- Year-to-date profit and loss statements
- Current business balance sheets
- Individual income tax returns + transcripts
- Federal business income tax returns and transcripts for the previous two years
- A list of all stockholders or partners
- Other documents as requested by lender



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Lenders use this information to ensure their business and income are on sound footing. Underwriters will look at the performance of similar businesses to predict their future success and ensure that mortgage payments will be manageable. Any significant decline in earnings must be explained.

Prospective borrowers also need to consider how they document profit and loss. If their business earns \$250,000 per year but they write off \$100,000 before taxes, a lender will only consider the remaining \$150,000.

**TIP:** Business needs ample history to prove its viability to a lender. In the world of VA financing, the best evidence they can provide is a two-year business track record. Brand new businesses simply won't make the cut.

Your client can still qualify with less than two years of business experience, particularly if they have previous related employment or extensive specialized training. But those with less than one year of self employment income can rarely gain approval.

If your client is just starting their business, tell them to take their time, maintain good credit and consider VA financing after they have a solid track record to show to a lender.

## SELF-EMPLOYMENT SNAPSHOT

- ★ 9 percent of U.S. businesses are owned by American military veterans
- ★ 5.8 million people are employed by veteran owned businesses
- ★ \$2.3 million in average gross annual sales for veteran-owned businesses

**VETERANS ARE AT LEAST  
45 PERCENT MORE LIKELY  
TO BE SELF-EMPLOYED  
COMPARED TO THOSE WITH  
NO ACTIVE DUTY MILITARY  
EXPERIENCE.**

Source: Small Business Administration's Office of Advocacy, 2010



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# COMMISSION-BASED EMPLOYMENT

Lots of jobs operate on a commission basis. But commission-based income can fluctuate, resulting in uncertain wages.

The VA encourages lenders to cautiously evaluate commission-based applicants. Lenders will gather a variety of documentation to analyze the stability of your client's income, including:

- ★ The actual amount of commissions paid year-to-date
- ★ The basis for payments (salary plus commission, straight commission or draws against commission)
- ★ The commission schedule (weekly, monthly, quarterly, semiannually or annually)
- ★ Individual income tax returns for the previous two years

## OVERTIME OR BONUS INCOME

The conditions pertaining to part-time employment also apply to workers with substantial overtime or bonus income. In order for your client's overtime or bonus income to be included in their total assessment, that income must have been consistent for two years. Their employer must also verify that the overtime or bonus income is likely to continue.

### TIP:

Commission-based employees generally need to show two years of adequate income to gain a lender's favor. Anything less than two years isn't considered "stable." If your client just switched over from a salaried position to a commission-based job, they may have to hold out for two years before they can qualify for VA financing.

# PART-TIME EMPLOYMENT

Part-time employees are also eligible for VA loans, but special conditions apply. Part-time or seasonal jobs are viewed by lenders as less reliable than full-time positions. With that in mind, lenders will hold part-time applicants to a higher standard than their full-time counterparts. Part-time applicants must have two years of consistent income to earn VA approval.

### TIP:

There are very few exceptions to the two-year benchmark for part-time employees. While lenders may be more flexible with the two-year standard for full-time applicants, part-time candidates are granted little leeway.

If your client is a part-time employee, encourage them to keep their nose to the grindstone. Once they hit the two-year mark, they'll be in a much better position to secure financing.



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# MILITARY EMPLOYMENT

Active military employees must provide a recent military Leave and Earnings Statement (LES) as employment and income verification. If your borrower's enlistment is expected to continue more than 12 months after the anticipated loan closing date, they shouldn't expect any employment-related setbacks.

## TIP:

Lenders don't like to see that a borrower's source of income is ending. If your client's military service (and pay) will be ending within the next 12 months, they will need to provide additional documentation. Service members within 12 months of release have to provide either an offer of civilian employment or evidence of re-enlistment.

# RECENTLY DISCHARGED VETERANS

It's tricky for lenders to gauge employment stability for recently discharged veterans. Some veterans have little to no employment experience outside the military, which makes job stability harder to assess.

Recently discharged veterans don't need to have two years of civilian job experience to qualify for a VA loan. But lenders do need to ensure that new employment is stable and likely to continue. Veterans who have related training or experience to apply to a new job will find more favor from a lender than someone who embarks on a brand new career path. For example, an MP who gets a job as a police officer may have no trouble meeting a lender's employment guidelines.

## TIP:

Lenders want to make sure your borrower's new job is a good fit. Explain how training or past experience has prepared them for success at the new job. Provide a letter of recommendation from the employer. Have them do all they can to show they are committed to long-term success at their new job.



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# WHAT DOES YOUR BORROWER'S EMPLOYMENT RECORD SAY ABOUT THEM?

Your client's employment record conveys a lot of information to a lender. With a quick look at their job history, a lender tries to get a solid sense of your loan applicant's future earnings and employment and ensure they're ready for a 30-year commitment.

Consider what an employment record says about your client. Does your client have the skills necessary to succeed in their new job? Is it likely their high-paying job will continue? Is frequent job-hopping tarnishing their image?

The quickest way to polish your client's employment record is with two years of stable employment. Service members with less can certainly garner VA approval, but some persuasive explanation may be in order.

The road is definitely rockier for those with less than one year of stable employment. Talk to a VA lender about your client's situation, and consider revisiting VA financing when their resume is a little thicker. A year or two in the workforce will give them the experience and income needed to meet mortgage standards.

**WONDERING IF YOUR CLIENT'S  
EMPLOYMENT RECORD IS UP  
TO PAR? AN EXPERIENCED  
VA LENDER CAN PROVIDE A  
QUICK, NO-OBLIGATION  
EMPLOYMENT ASSESSMENT.**



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