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HOUSING: Veterans' loans shunned by sellers, real estate agents say

Paperwork, delays undermine benefit for military buyers

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By ERIC WOLFF - ewolff@nctimes.com | Posted: January 24, 2010 5:50 pm | (22) Comments | Print

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Gina Cowles follows her youngest child, John Michael, 2, carrying items into their new home in Bonsall on Monday with her husband, Larry, coming up the hall from behind. (Photo by Bill Wechter - Staff Photographer)

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Struggle with a VA housing loan

One family's struggle to purchase a North County home with financing from the Veteran's Administration.

In February 2009, U.S. Navy Lt. Larry Cowles and his wife, Gina, had a Veterans Affairs Administration-backed loan and a dream of buying a house.

They spent eight months dragging their four children to dozens of homes around North San Diego County, and they made 13 bids. None were accepted.

"We'd say, 'We're going VA.' They'd say, 'Oh. Good luck. We're not taking VA loans,'" Gina said. "They weren't supposed to, because that would be discriminatory. But occasionally they'd say, 'Don't even bother making a bid.'"

VA loans are intended to be a benefit to active and retired service members: They allow no-down-payment house purchases, and a low interest rate on the loans.

But misperceptions about the riskiness of these buyers, combined with the reality of stringent inspection standards and piles of paperwork, have left many sellers unwilling to take VA bids, said real estate agents and mortgage brokers throughout the region. The delays and denials promise frustration for at least some of the 265,000 veterans in San Diego County and the tens of thousands of active duty personnel in the region.

"Those guys are bottom on the list, and they should be top, if there's any patriotism to any of this," said John Linthurst, the Cowleses' real estate agent.

The VA could not provide a policy official to comment on this story last week.

To some extent, VA buyers are penalized by the excesses of the housing boom, when unqualified buyers took multiple loans so they could purchase more expensive houses than they could afford. Some sellers see a no-down payment loan, and even though it's backed by the VA, they get nervous that the deal won't go through, said Malcolm Davies, a mortgage banker and branch manager with Opes Advisers. But VA loans have to be fully underwritten, like any conventional loan, Davies said.

"We have very well-qualified VA borrowers, many of which aren't able to acquire properties, simply because sellers believe that their financing is 100 percent financing," Davies said.

There are risks to getting into escrow with a VA buyer: If the deal falls through, the seller has to pay for the appraisal, the inspection, and some other transaction costs.

The VA also has strict rules for the condition of houses they'll allow to be financed. Brad Wales searched

for months to find a house the VA would accept, and ultimately failed.

Wales was honorably discharged from the U.S. Coast Guard in 2008. With the market down, he thought it was time to find a permanent home for himself, his wife and his 17-month-old son.

He searched all over North County to find a house the VA would take, but he couldn't: Either the houses were too damaged, or they were manufactured homes not on permanent foundations, or they didn't meet other requirements. He eventually gave up, borrowed money for a down payment from his family, and bought a condo in Cardiff with a conventional loan.

"We got our information on VA loans on the Internet," Wales said. "It sounds too good to be true almost, and it ended up being that way."

Larry and Gina Cowles were about ready to give up and look for a rental property when they made one last-ditch bid on a house in Bonsall. Linthurst wrote an impassioned letter to the bank, noting that Larry was an active service Navy doctor, and that this family deserved a house. It worked: In September, Wells Fargo took their bid.

The couple was elated, but the process wasn't over. The house needed work to pass a VA inspection, and because it was bank-owned, the seller wouldn't make any repairs.

So they had to fix things themselves, even before the deal was closed. There was no stove, so Larry Cowles bought an \$80 stove on Craigslist and, using Linthurst's key, he installed it (Larry said the guy with the stove had used it for the exact same purpose). He fixed leaks, cleaned up mold, and had the carpets cleaned. Never mind that they would be replacing the whole kitchen, and all the carpets. These improvements had to be done to pass their VA appraisal.

"I was a little worried that we would get arrested for fixing a house that we didn't own," Gina said.

The process ended up taking two months from getting into escrow to a final sale. The Cowleses said they had to submit their loan paperwork twice to keep it up to date as the inspections dragged on. They said there seemed to be an unending supply of forms to fill out for the VA, including two letters from Cowles' commanding officer proving he was in the Navy.

The long closing process is the norm, rather than the exception, real estate professionals say.

"VA buyers are having a real tough time because lenders, they don't want to take the time to wait for VA to take the loans, because they take longer," said Marjo Wood, a Murrieta real estate agent and board member for the Southwest Riverside Association of Realtors.

The Cowleses finally closed on the house on Dec. 2, and immediately began renovating. On Monday, they moved in, thankful that they'd be in the house before Larry ships out to Afghanistan in March.

The purchase process was so difficult that Linthurst said he doesn't think he'll take another VA-backed client. The Cowleses don't blame him, or the other agents and bankers who stay away.

"I'm very grateful we got this house," Larry said.

"Looking at the future, when we have to sell the house ---- wow. Would we want to sell it to a VA loan,

knowing I could get sent clear across the country, knowing I could be waiting two to three months waiting for them to get cleared to pay us?" he said, taking a deep breath. "That makes me sick to my stomach."

Call staff writer Eric Wolff at 760-740-5412.

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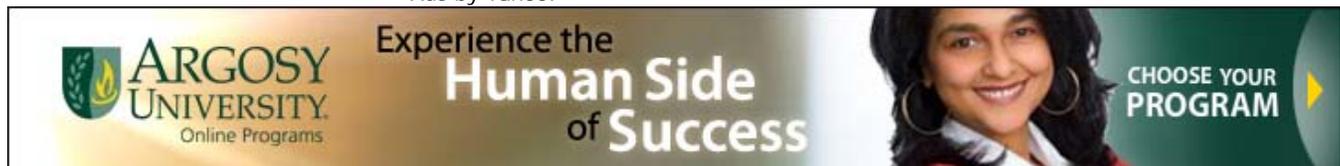
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