

Transcript

How VA Home Loans Work

If you're thinking of buying a home, a VA home loan can help you make it happen.

Let's take a look at what VA home loans are as well as some of the advantages they offer that traditional mortgages don't.

A VA home loan is a loan that veterans, active duty service members and some surviving spouses are eligible to apply for. They often come with better terms than a traditional mortgage and can be easier to qualify for.

There are specific eligibility requirements in order to qualify, like the length of your service, which we cover in an accompanying checklist.

If you're eligible, you can apply for a VA home loan at any time during or after your service when you're looking to buy or refinance a home as long as the home will be your primary residence.

You can also use a VA home loan more than once, if, say, you end up selling one house and buying another later on.

As always there are a few exceptions. You can check the VA's website to find out if you or the home you want to purchase might qualify.

VA home loans can offer benefits over a traditional mortgage:

One is potentially lower interest rates. Since the VA guarantees a portion of the loan, they are less risky for lenders, because the guarantee protects the lender. As a result lenders might offer you lower rates than you could get with a traditional mortgage.

Still, different lenders will offer different interest rates and terms on VA home loans, so it's worth taking some time to shop around for the best deal.

Another potential benefit is that you aren't generally required to make a down payment, which means you could finance 100% of the home's value.

For a traditional mortgage, lenders often require borrowers to make a down payment of at least 20% of the home's value. If they don't, they typically have to pay private mortgage insurance which can significantly add to the cost of the loan.

But, with a VA home loan, you aren't required to pay mortgage insurance if you don't make a down payment.

Now, there are other fees for VA home loans - like the funding fee- which we'll discuss later. But, if you don't have savings to put toward a down payment, not having to pay mortgage insurance will likely save you quite a bit of money.

On the other hand, not putting anything down means you'll be taking out a larger loan, so over time you will likely pay more in interest.

For example let's say you buy a \$180,000 house with a 30-year fixed rate home loan at 3.5% interest. If you don't make a down payment, you could pay a total of about \$291,000 for your house over the life of the loan.

On the other hand, if you were to make a ten percent down payment of \$18,000, you'd end up paying a lot less. You'd have lower monthly payments and you'd pay about \$262,000 over the life of the loan... Adding your original \$18,000 down payment, you might pay a total of about \$280,000 for the same home.

0 down – 808/mo. 290,981life

18K down – 727/mo. 261,883 life +18k down = 279883

That's a difference of about \$11,000. So, as you can see, if you can make even a small down payment, you could save money in the long run.

In addition to the typical closing costs and fees, there are two fees specific to getting a VA home loan that are worth noting: the appraisal fee and the funding fee.

In addition to the home inspection your lender may require, the VA will also require a separate inspection, typically called an appraisal, by an independent inspector. These appraisals protect both you and the bank by making sure the home meets the minimum property requirements set by the VA—basically that the property is safe, structurally sound and that your purchase price is a fair value. In most parts of the country, an appraisal will cost you around \$400 to \$500. You can find out what the maximum allowable appraisal fee will be for your region at [va.gov](https://www.va.gov).

There is also a “funding fee.” This is a one-time fee on the loan that is intended to reduce the loan’s cost to taxpayers. It’s charged as a percentage – from 0 to 3.3% of the total amount of your loan. What you’ll be charged depends on a variety of factors, including some of the details of your military service and how much of a down payment you make on your home – the lower your down payment, the higher your funding fee.

This funding fee can be bundled with the rest of your loan, so you won’t have to pay for it out of pocket at the closing, but bundling it with the rest of your loan means you’ll accrue interest on this fee.

When you take into consideration additional interest over the life of the loan—this fee can be significant, so again, if you can afford it, making just a small down payment, and even paying the funding fee upfront, can save you money over the long run.

The US department of Veterans affairs has a funding fee table that can help you estimate what percentage you might pay at [va.gov](https://www.va.gov).

There are some circumstances which might make it difficult for you to qualify for a VA home loan—as well as some limits on the amount you can borrow without making a down payment.

If you have a lot of debt in relation to the amount you earn, it could keep you from qualifying for a loan.

And if you have a low credit score, it won’t necessarily stop you from getting approved by the VA for a VA home loan, but it could keep you from getting approval from a specific lender. And, like other types of loans, the better your credit score, the lower the interest rate you will likely be offered.

There also are some limits on what you might be able to borrow. While the VA doesn't put a cap on how much you can borrow, there is a limit on the amount they can be held liable for. This can affect how much money a lender will loan you, and if you might be required to make a larger down payment. You can find out more about these limits at va.gov.

It's also worth noting that VA home loans can take longer to process than traditional mortgages. Since some sellers prefer to accept the fastest payment, this can sometimes make getting an offer accepted with a VA home loan difficult in, for example, places where the housing market is competitive.

Down the road, the VA can be a source of assistance and support if you encounter financial hardships and can't make your monthly loan payments on your home. They can help negotiate with your lender on your behalf and help you find an alternative to foreclosure if you need it.

Finally, before you buy a home, think about whether homeownership is right for you right now. With the cost of buying and selling a home, including the closing costs, property taxes, home upkeep and maintenance, renting could be a cheaper alternative if you need to relocate in the near future.

A VA home loan can be a great benefit for those who qualify—especially if you want to buy a home but haven't yet saved enough for a full down-payment. out.”