



## VA Loans Are the Best Home Mortgage Program Out There

Mark Henricks | May 20, 2016



In 2007 when subprime mortgages were widely available, it seemed almost anybody could buy a home with zero down payment, even with less than stellar credit. Guess what? You can do that in 2016 -- if you qualify for a [Veterans Administration Loan Guaranty](#).

The federal VA loan program lets eligible veterans borrow under uniquely favorable terms to pay for buying, building or fixing up a home. VA loans don't require down payments, offer low interest rates and are less demanding when it comes to credit history.

Borrowers don't even have to be ex-soldiers -- officers of the National Oceanic and Atmospheric Administration, U.S. Public Health Service officers and former and current employees of some other non-military organizations also can qualify, for instance. So can surviving spouses of veterans.

The VA loan program dates to 1944, when Congress set it up to help veterans and surviving spouses purchase homes. It has been a popular benefit. The program closed on more than 631,000 loans last year, according to John Bell, VA's assistant director for loan policy and valuation.

"The volume of loans we do continues to increase," Bell says. "Two of the last three years are the best years in the 70-year history of the program."

The big appeal is that borrowers don't need a down payment. By comparison, loans backed by the Federal Housing Administration (FHA) require at least 3.5% down. Conventional loans without government backing require 3% down.

VA borrowers also don't have to pay for mortgage insurance. This insurance protects lenders if borrowers fail to pay back the loan. Most lenders require it on loans for more than 80% of the property's value. Paying premiums for mortgage insurance can add thousands of dollars to a borrower's upfront costs and hundreds to the monthly payment.

VA borrowers also get lower interest rates than many borrowers. And VA is more accepting of borrowers with low credit scores and less strict about the debt-to-income ratios that other lenders heavily rely on when approving borrowers.

Eligibility is the biggest limitation. To get a VA loan, a veteran must have served six months of active duty in peacetime, or three months during wartime, or six years in Reserves or the National Guard.

Spouses of veterans who die in the line of duty or from a service-related disability are also eligible. And other exceptions may also apply, so veterans who aren't sure they qualify should ask their lender to request a free eligibility certificate from the VA.

Another catch is a special funding fee unique to VA loans. To keep the program self-supporting so it doesn't require any government subsidy, most VA borrowers pay these fees, which go directly to the VA.

Fees vary depending on factors such as the nature of military service and how much down payment the veteran opts to make. However, they are typically 2.15% of the loan amount. That's not much less than the minimum down payment for an FHA loan. And VA funding fees can be as high as 3.3%. That's more than the minimum down payment for a conventional loan.

"You're looking at a couple of percentage points, which is fairly significant," says Charlie Harriman, a financial advisor with [Cloud Investments](#) in Huntsville, Ala. "You can finance it into the loan, but at the end of the day, you don't have to pay that on a conventional or FHA loan."

Another limitation is the fact the borrower must live in the property as his primary residence. Borrowers also have to pay higher fees after the first time the use VA financing.

VA tends to be more finicky about property condition, and some say the extra inspections lead to delays in closing a sale. However, Bell says that VA has digitized and streamlined its processes so that typical delays have shrunk to only a day or two.

VA borrowers can make down payments if they want to. And it may be a good idea, Harriman notes, because a bigger down payment means a lower loan balance and lower monthly payment. A down payment can also reduce the VA funding fee.

About 12% of VA borrowers choose to make down payments, Bell says. And about a third don't pay funding fees, thanks to exemptions for, among others, veterans receiving disability payments, he says.

There have been about 20 million VA loans made since the program's inception. But VA-backed loans may still be an underutilized financial resource.

"There are 23 million veterans out there in the population," Bell says. "We have active loans with about two and a half million. So there are a lot more veterans out there that could qualify."