

Understanding how VA loans work for veterans, military members

MONEY MATTERS



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There's a valuable perk that Armed Forces members and veterans can take advantage of – one that comes in particularly handy nowadays when shopping for a home. It's called the VA home loan, and it's often the most generous form of financing you can get to purchase a residential property.

Prospective buyers face plenty of challenges nowadays, including sky-high mortgage rates, home prices through the roof and limited inventory. But the VA loan at least

makes it easier to qualify for and afford a mortgage, which is a godsend in this costly real estate climate.

“The VA loan program exists to support those who have served their country honorably by making homeownership more accessible. It recognizes the sacrifices made by soldiers, veterans and their families and aims to provide them with affordable and accessible housing options,” explained Joseph Hill, a loan specialist with Mobility Nest.

Why is this loan so preferred? Consider that no down payment is required, you won't have to pay any mortgage insurance (although a one-time funding fee of 0.5% to 3.3% may be charged), you can likely lock in at a relatively low fixed interest rate, and it's often easier to qualify for this financing than for a conventional loan: four benefits that other types of loans can't collectively match.

You can also borrow up to \$726,200 in most U.S. counties, which provides a generous range and more flexibility to purchase a nicer home.

Note that the U.S. Department of Veterans Affairs doesn't actually offer or underwrite these loans; they are provided by private lenders. The reason why participating lenders can be so generous with loan rates and terms is because the VA backs these loans.

“In the event of any losses, the VA offers lenders a guarantee of up to 25% of the loan value so long as the lender meets certain loan qualifications,” said Evan Kaufman, VA loan expert with WeVett Home Loans. “This guarantee greatly reduces risks for lenders, who, in turn, tend to reduce their rates.”

Another advantage of a VA loan? It's assumable. That means a qualified buyer can take over the loan, which can be an attractive selling point.

Of course, there's a catch: You have to be an active-duty military member, veteran or surviving spouse to qualify.

“You must have served 90 consecutive days during wartime or 181 days during peacetime to be eligible, and National Guard and Reserve members need to have served for at least six years,” said Vivian Lehman, broker/owner of You Have Realty in Maitland, Florida. “You must also provide a Certificate of Eligibility from the U.S. Department of Veterans Affairs, find an approved VA loan lender, and ideally have a debt-to-income ratio of 41% or lower.”

While the VA loan doesn't mandate a minimum credit score, experts recommend having a 620 or higher score to improve your eligibility odds.

Kaufman noted that VA-eligible properties include single-family detached homes, condos, townhomes, multi-unit properties (up to four units), mobile/

manufactured homes (although you must own the land) and new construction residences.

“Any of these properties must be your primary residence. Ineligible properties include commercial properties, raw land, undeveloped lots and investment homes,” continued Kaufman.

Be aware that the property will need to be appraised by a VA-approved appraiser.

“The structure must have no structural integrity issues, such as roof leaks or flooring damage. There can be no safety or electrical hazards, and the plumbing and HVAC systems need to be working properly. The appraiser will look for things like pest infestations, mold and mildew. Any issues noted will require that the seller fix them before closing, or the loan won’t be approved,” cautioned Lehman.

Another caveat to note: It can be more challenging to find a homeseller willing to work with a VA loan-approved buyer. Some sellers are more cautious of these buyers because they worry the loan won’t get approved or the home won’t pass muster with the appraiser and/or inspector.

And while VA loans are offered by private lenders, including banks, credit unions and mortgage companies, it can be trickier to find a participating lender, said Hill.

“It’s essential to compare loan offers from different lenders to find the best terms and rates,” recommends Hill. “Veterans can also work with VA-approved mortgage brokers who specialize in VA loans.”

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