UNITED STATES DEPARTMENT OF VETERANS AFFAIRS



Overview of the VA Home Loan Program

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Who's Eligible

- Veterans
- Active duty personnel
- Certain reservists and National Guard members
- · Surviving spouses of persons who die on active duty or die as a result of service-connected disabilities
- Certain spouses of active duty personnel who are (a) missing in action, (b) captured in line of duty by a hostile force, or (c) forcibly detained by a foreign government or power

More on Eligibility

How It Works

You get your loan from a private lender, and VA "stands behind" the loan with that lender. If something goes wrong and you can't make the payments anymore, the lending institution can come to us to cover any losses they might incur. The VA *loan guaranty* is this "insurance" that we provide the lender.

Most loans are handled entirely by lenders. VA rarely gets involved in the loan approval process.

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What It Can Do for You

Here are some advantages of the VA program:

- You can buy a home without a down payment as long as the sales price doesn't exceed the appraised value. (Of course, you have to qualify in terms of income and credit.)
- You won't need to buy private mortgage insurance.
- VA rules limit the amount you can be charged for closing costs.
- Closing costs may be paid by the seller. (You should keep this in mind when negotiating the sales price.)
- The lender can't charge you a penalty fee if you pay the loan off early.
- VA may be able to provide you some assistance if you run into difficulty making payments.

You should also know that

- You don't have to be a first-time homebuyer.
- · You can reuse the benefit.
- VA-backed loans are assumable, as long as the person assuming the loan qualifies.

Size of the Loan

VA doesn't specify a maximum loan amount. But the law does set limits on the amount of liability we can assume. This usually affects the amount of money an institution will lend you.

The lender may be able to increase the size of the loan if you can make a down payment.

Information on Loan Limits

When the lending institution is deciding how big a loan you can afford, it uses either of two methods:

- One Method is the "residual income calculation." The lender adds up your routine housing expenses, taxes, and additional debt payments such as your car and credit cards. He or she subtracts this total from your income. Then the lender decides whether you'll have enough money left over for everyday living.
- The second method is the debt-to-income ratio. Under VA's rules, this is the ratio of your total debt (both housing and other debt) to your income. For more information on how lenders use these tools to complete a Loan Analysis, visit the VA Lender's Handbook, Chapter 4, Topic 9.

This is just a thumbnail sketch. A VA-approved lender is the best resource to see how large a loan you qualify for. In making a decision, the lender must look at income (amount and stability), credit, and "compensating factors." Lenders may use certain automated systems to help with their decisions.

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Your Costs

The VA Funding Fee. Although we don't require private mortgage insurance we do charge a funding fee. (This can be folded into the loan.) If you receive service-connected disability payments each month, you're exempt from the fee. For more information on the VA Funding Fee and who is exempt, visit the Lender's Handbook, Chapter 8, Topic 8.

Information on Funding Fees

Other Costs of the Loan. Other costs will be involved. Of course, the lender charges interest. And some other fees and charges have to be paid at closing. Here are some general rules:

- The lender, not VA, sets the interest rate, the "discount points," and closing costs. These rates may vary from lender to lender.
- The seller *can* pay for some closing costs. (Under our rules a seller's "concessions" can't exceed 4% of the loan. But only some types of costs fall under this 4% rule. Examples are: payment of pre-paid closing costs, VA funding fee, payoff of credit balances or judgments for the veteran, and funds for temporary "buydowns." Payment of discount points is not subject to the 4% limit.)
- You're not allowed to pay for the termite report, unless the loan is a refinance. That fee is usually paid by the seller.

Basic Requirements

- You must live in the home as your primary residence.
- You must qualify in terms of income and credit. You could be turned down if you've had problems with credit or your income is not considered stable.

Steps in the Process of Getting a VA Home Loan

Getting a VA-backed loan - or any home loan - takes some time. The process has a few steps. Click on the link for more information:

Steps in Getting a VA Home Loan

If you have any questions during the process that the lender can't answer to your satisfaction, please contact VA at your regional loan center.

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Useful Links:

- <u>Ginnie Mae</u> (The Government National Mortgage Association) This site will give you information on the process and calculators
- HUD (The Department of Housing and Urban Developement) Contains information on shopping for a home, closing costs and terminology
- MBA (Mortgage Bankers Association of America) Will give you information on the purchase process, calculators and real estate terms.
- Freddie Mac (Federal Home Loan Mortgage Corp.) Site will give you information about the purchase process.
- FNMA (Fannie Mae) Contains information on the purchase process.

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