

What You Need to Know if You're Considering a VA Home Loan in 2022

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Updated April 4, 2022

When looking for a way to fund the dream of home ownership, many men and women who served or are serving in the United States military look into VA loans.

The Department of Veterans Affairs — formerly the Veterans Administration — loan program is for service members, veterans and eligible surviving spouses to help them become homeowners.

“We’re looking for the VA home loan to be the program of choice for veterans,” said Terry Rouch, assistant director for loan policy and valuation with the Department of Veterans Affairs. “This is what we consider one of the major benefits for their military service.”

While many of the terms are favorable, in some cases, a VA loan might not always be the best option for those who are eligible, so it is important to understand how a VA loan compares to a conventional loan and how and when they can be used.

What is a VA Loan?

A VA loan is a mortgage loan for qualifying military personnel, veterans and surviving spouses administered through the Department of Veteran Affairs. The loans are made through private lenders but backed by the federal government. Among the benefits are lower interest rates and often no down payment.

The main benefits of a VA loan are:

- No down payment in many cases.
- Often lower interest rates than conventional mortgages.

- Limited closing costs.
- No need for PMI (private mortgage insurance).
- No penalty for prepayments or paying off the loan early.

“In the past year, we guaranteed more loans than we’ve ever done in the entire history of the program,” Rouch said. “We had 1.44 million loans in the fiscal year of 2021.”

Rouch said the fact PMI is never required with a VA loan is a huge benefit. Conventional lenders often require PMI if the buyer is making less than a 20% down payment.

Michael Anderson, a mortgage loan officer with Charter West Bank in the Omaha, Nebraska, area, said using the VA home loan program increases buying power.

“Say you wanted to keep your payment at \$1,500. If you have PMI, you’re going to be able to buy less of a home because you need to add in that PMI portion,” Anderson said.

About 40% of Anderson’s clients are currently serving or have served since the area is home to Offutt Air Force Base. Anderson said he has worked at other banks where more than 90% of his clients were using VA loans.

Realities of a VA Loan in a Hot Housing Market

It’s no secret the real estate market is hot across the country. Prices are increasing and the time that homes are on the market is decreasing. In many cases, there are multiple offers. More and more, cash offers rule and those seeking loans are aced out.

There are misunderstandings about the VA loan process which make both buyers and sellers uneasy. One of those misconceptions is that the process takes much longer than a conventional loan.

“It’s really about advocacy at that point,” said Debbie Childs, a real estate agent with the Real Estate Group in Virginia Beach, Virginia.

She often has the loan officer who is working with her clients call the listing agent to vouch for their mutual client.

Childs said to sweeten the deal, she will add a clause saying if the VA appraisal finds anything that needs to be fixed, the buyer will incur the cost.

Sometimes, the seller will pick an offer based on the fastest closing. In this case, cash offers are more attractive because the deal can close quickly.

Childs said most of her VA loans have come through in about 30 to 45 days. According to Fannie Mae, the average closing time for a conventional loan is 47 days.

Sometimes it takes a conversation between the loan officer and listing agent to get a deal done, providing proof the buyer is serious and has the funding in place.

Meeting VA Loan Requirements

Even with a VA loan, the borrower must still meet the lender's credit and income requirements so borrowing money to buy a home is not a guarantee, but having a VA loan can help make things easier on the borrower.

“It's difficult in many instances for a veteran or an active duty service member to actually save money simply because they're limited on the amount of income that they're earning and they're constantly being transferred to different duty stations, which makes it hard for families to set up a budget to set aside a down payment,” Rouch, himself a Navy veteran, explained.

A VA loan is only for primary residences and that residence must meet building codes and safety standards, so it's not possible to use a VA loan for a vacation or investment home or a real fixer upper.

There are also funding fees for VA loans based on a percentage of the loan with rates set by the federal government.

All VA loans have funding fees except if the borrower:

- Receives or is eligible to receive compensation for a service-related disability.
- Received a Purple Heart.
- Is the surviving spouse of a veteran who died during service or of a service-related disability.

The funding fee is similar to the points conventional lenders charge for a loan.

Who are VA Loans For?

Contrary to what some might think, VA loans aren't just for first-time home buyers.

“Many people utilize the VA program one time when they are young and they purchase their first home (using a) VA loan, but they don’t ever go back and use it again,” Rouch said. “We do want people to know this is a lifetime benefit so once they become eligible, they can use that for their entire lives.”

According to the VA website, as of 2020, there is no limit to the amount of a loan if you meet the conditions of having full entitlement, which means you have:

- Never used the home loan benefit, or
- Paid a previous VA loan in full and sold the property, or
- Used the home loan benefit, but had a foreclosure or short sale and repaid it in full.

If you do not meet the conditions for having a full entitlement, there may be a loan limit, based on where you live.

The limit is based on the county where you live and the Federal Housing Finance Agency has a site to figure it out. Typically, in 2022 it is \$647,200 but higher in some areas where it is \$970,800.

Rouch said service after the loan is another advantage of using a VA home loan.

“If someone becomes delinquent or has a situation that would create a scenario where they need to do a modification, the VA is very workable with veterans. We want to ensure that they not only get a loan but to maintain that home as well.”

He said they work with loan servicers to make sure veterans are taken care of.

“On that odd chance or that situation that may occur where they become delinquent, they can feel comfortable knowing that the VA has got their back there too and that we’re there to try to help.”

Types of VA Loans

Under the heading of VA loans, there are several different types including purchase loans and cash out refinance loans.

- **Purchase loans:** This loan helps veterans purchase a primary residence at a competitive interest rate without PMI and often without a down payment.
- **Cash out refinance loans.** With this loan, owners can take cash out of a home’s equity to pay for things like home improvements or school, or to pay off debt.

The other types of VA loans are:

- **Native American Direct Loan:** For Native Americans or people married to Native American veterans who can help finance the purchase, construction, or improvement of homes on Federal Trust Land.
- **Interest Rate Reduction Refinance Loan:** These are for borrowers who have an existing VA backed loan who want to reduce monthly payments or make their payments more stable. These are also known VA streamline refinance loans.
- **Adaptive Housing Grants:** These loans are for veterans with permanent and total service-connected disability to help them purchase or build an adaptive home or to modify an existing home.

Who is Eligible for a VA Loan?

In general, to be eligible for a VA loan, you must have served in the military for a specified length of time or be the surviving spouse of someone who died on active duty or from a service-related disability or the spouse of someone being held as a prisoner of war.

General length of service requirements are:

- 181 days of active duty during peacetime.
- 90 consecutive days during wartime.
- More than six years of service with the National Guard or Reserves or 90 days under Title 32 active duty status with at least 30 days being consecutive.

The VA website section on eligibility requirements has more specifics depending on when you served, if you are an officer or a retired officer, and the times that constitute wartime or peacetime.

Character of service matters, so no other than honorable discharge is allowed so no dishonorable discharge or bad conduct.

To get a VA loan, you must have a valid Certificate of Eligibility (COE) to show you have satisfied the service requirements and duty status.

The application process is online as part of a benefits information site from the VA and the Department of Defense. Make sure to have any documents handy that you may need to prove your eligibility.

Even if you meet the service and duty status requirements, it is not a guarantee that you will receive a VA loan. You must still meet credit, income, and other requirements your lender might have.

How to Buy a House With a VA Loan

In many ways, buying a home with a VA loan is the same as buying a house with any other type of loan.

As you would with any loan, you need to find out how much of a mortgage you qualify for, but there's one additional first step.

"I like to go out and get [a client's] certificate of eligibility first from the VA portal just to make sure they're eligible and then from that point, it's just an application just like everyone else," Anderson explained. "I'm going to document their credit, get their assets and other information."

Not all lenders handle VA loans. According to the VA, there are more than 1,500 lenders that offer VA loans.

To find a VA loan lender in your area, Anderson recommended asking your real estate agent or talking to other veterans in your area or the area where you're moving. In fact, you might want to look for a Realtor who has experience working with the military community and understand the specific needs and challenges.

Once you know how much you prequalify for, you can start looking at homes in your price range.

"It's a challenging market and each pricing point is different and each neighborhood is different, so you really need a realtor guiding you," said Childs, the Virginia Beach real estate agent. "When I'm representing a VA client, I first remind the listing agent that the VA buyer's skin in the game is their service to our country because sometimes (they ask) where is their skin in the game? Where is their money down?"

The prequalification can also help agents and home sellers know you are serious about buying their home.

Appraisal and Underwriting

Once you find the home you want and put in an offer, there are a few more steps you must take with a VA loan including appraisal and underwriting.

"When I'm working with buyers, I try to get them through initial underwriting before they look at houses. That does really help a buyer to get all their paperwork in and processed so when I have my loan officer call the listing agent, I can say they are through initial underwriting already," Childs said.

The VA appraisal for a loan is not the same as a home inspection or a traditional home appraisal. It must be done by a VA-certified appraiser, which can take up to two weeks depending on the market.

The VA appraisal is more stringent than appraisals for traditional loans and is done to make sure the property meets the minimum property requirements like working plumbing and functioning electrical systems and that it meets fair market value.

“The VA does do almost a secondary home inspection,” Childs explained, but said the reports often come back with just a few minor repairs.

Closing Costs

The closing costs are the fees the borrower pays to the lender, and with VA loans, they are different than with traditional mortgage loans.

With VA loans, lenders cannot charge the borrower prepayment penalties, attorney fees or settlement charges.

Lender can charge:

- **Origination fee:** The lender can charge this fee, but there are limits about how much they can charge.
- **VA funding fee:** This is a charge that is only for VA loans. It is a one-time fee that goes to the VA as a way to help pay for the program to continue. The fee varies based on the price of the home and if the borrower has a down payment.
- **VA appraisal fee. This fee varies from state to state and they were raised in 2021 to meet high demand. The fee can be \$450 to more than \$1,000 (parts of California and Alaska). The appraisal determines the market value of the home and ensures that it meets Department of Veteran Affairs requirements.**

If you don't want to pay the closing costs up front, you can roll some of them into the mortgage amount, including the VA funding fee.

Frequently Asked Questions (FAQs) about VA Loans

We found the answers to some of the mostly commonly asked questions about VA loans.

Is There a Minimum Credit Score to Qualify for a VA Loan?

The VA does not set a minimum credit score, however lenders may require a credit score above a certain threshold to have a loan with their company. Your real estate agent should be able to steer you to a lender that can work with whatever credit score you have. Or help you understand ways to bring it up if necessary.

What is the Minimum Income for a VA Loan?

The VA does not set a minimum income for a loan, however borrowers still need to meet income and other standards from the lending institutions.

How Does a Home Qualify for a VA Loan?

The home must pass a VA appraisal in order for the buyer to use a VA loan. The VA appraisal makes sure the property meets the minimum property requirements like working plumbing and functioning electrical systems and that it meets fair market value.

Is There a Limit to the Amount you can borrow With a VA Loan?

There is no loan limit if the borrower meets basic eligibility criteria of service time and character of discharge. That assumes the borrower has a full loan benefit entitlement. The lender might set an amount the borrower qualifies for based on income, credit, and other criteria.

Who Qualifies for a VA Loan?

There are basic eligibility criteria of service time and character of discharge. General length of service requirements are: 181 days if served active duty during peacetime; 90 consecutive days during wartime; more than six years of service with National Guard or Reserves or 90 days under Title 32 active duty status with at least 30 days being consecutive. Surviving spouses can also be eligible in certain situations.

What can Disqualify You From a VA Loan?

Service members and veterans must meet discharge and military service obligations. A less than honorable discharge may disqualify someone from obtaining a VA loan as they could not meet time of service requirements.

Is it Easy to Get Approved for a VA home Loan?

Approval for a VA loan is not necessarily any easier or more difficult than approval for a conventional loan. The main differences are neither a down payment nor PMI (Private mortgage insurance) are required parts of VA loans.

Can I be Denied a VA Loan?

Eligibility for a VA loan does not always mean loan approval. Lenders might have other risk criteria they apply to loans that are in addition to VA requirements and guidelines.

Tiffani Sherman is a Florida-based freelance reporter with more than 25 years of experience writing about finance, health, travel and other topics.

