



## **VA Loans, A Gift from Uncle Sam**

Uncle Sam has a gift for the men and women who serve our country. It is the VA loan. The VA loan, short for Department of Veterans Affairs home loans, is available to veterans, active service members, reservists, and members of the Public Health Service. These loans are so popular, that in the past fiscal year alone, Uncle Sam has guaranteed 300,000 VA loans totaling more than \$38 billion.

Why are these loans considered a gift to our servicemen and women? Because VA loans require no down payment and are available from most lenders. Additionally, the government limits the amount of closing costs, origination fees, and appraisal fees. Because VA loan rates generally run the same as conventional rates, skipping the down payment is a big advantage. Not surprisingly, about 91 percent of VA buyers do just that.

Best of all, there is no private mortgage insurance (PMI) because the government prohibits lenders from requiring it. Not having PMI is a considerable cash savings for a borrower. For example, on a \$126,000 loan, PMI would run approximately \$40 to \$64 a month for the first three to five years of a 30-year loan. The total savings? \$1,440 to \$3,840.

### **However, there is a downside:**

\* **FUNDING FEES** - In 1982 Congress levied a one-time funding fee on VA loans. And these fees can range anywhere from 1 1/4 percent to 3 percent, depending on the veteran's service and whether it's a first or subsequent loan. Although the VA will lower the fee if the borrower makes a down payment of at least 5 percent, and a buyer can finance the fee along with the home, there is a hidden cost. For example, on a \$126,000 mortgage, a 2-percent fee can bloom into \$14,474 over the 30-year life of a 6-percent loan.

\* **LOAN LIMITS** - The maximum guaranteed is \$240,000, yet buyers in high-priced markets such as California or Manhattan may have to evaluate other options for their financing. And while the eligibility certificate indicates how large a loan the government will guarantee, the vet may not be eligible. Just like a conventional loan, the actual mortgage amount will be based on income, assets, debts and credit history.

\* **QUALIFYING** - VA loans are available for active and former members of the armed forces who have a specific length and time of service and discharge conditions. Reservists and National Guard members may be eligible if they served at least six years and received an honorable discharge. Veterans discharged for a service-related disability are potentially eligible, as are some members of the Public Health Service and foreign veterans who served with the Allied forces during World War II. Additionally, a widow or widower may also apply for a loan, provided the spouse's death was service related. MIA and POW spouses may also qualify.

Applying for a VA loan is no different than applying for a conventional loan, except that one needs to obtain a certificate of eligibility from the VA. Not only are VA loans easy to get, Uncle Sam has made it even easier this year. The actual loan process takes about two to six weeks, the same time as a conventional loan. And just about every lender that handles FHA or conventional loans also makes VA loans.

Yet the greatest gift of all remains the fact that VA loans allow a buyer to purchase a home without investing a down payment. And that is a very good gift indeed