VA Loan Fees and Costs

A borrower's guide to understanding the fees and costs associated with a mortgage

Introduction

Our country's servicemen and women have exclusive access to the nation's most powerful home financing tool.

VA home loans feature significant benefits that other loan programs rarely match. These user-friendly home loans come with no down payment and no need for costly private mortgage insurance (PMI).

Plus, VA loans have relaxed credit standards and feature interest rates consistently lower than their conventional counterparts.

But all good things in life (and all home loans) come at a cost. The VA loan program is no exception.

Potential VA borrowers frequently want to know more about those costs. There's no universal explanation, as each situation differs, but fees and charges on VA loans are typically lower than those found with conventional loans. The reality is it's tough to calculate your exact costs from outside the loan process.

But it can be helpful for future military homeowners to learn more about the VA loan program and the potential expenses ahead. A prepared buyer can move swiftly through the process by knowing approximately what fees to expect and having cash available to cover those costs.

But we'll let you in on a little secret now: The vast majority of Veterans United Home Loans customers spend little to no money out of pocket to purchase their home.

Still, well-prepared borrowers who understand the fees and costs associated with a mortgage will always have a leg up on other consumers.

A Closer Look at Potential Costs

It's nearly impossible to get a home loan today without making a sizable down payment. Conventional loans typically require a minimum down payment of at least 5 percent. But conventional borrowers who want to avoid paying private mortgage insurance (PMI) each month are required to put down at least 20 percent.

A 20 percent down payment on a $150,000 home is $30,000, which is a hefty sum for most military borrowers, who on average have less than $7,000 in assets.

Total Down Payment (based on average home price of $150k)	
20% (conventional)	**$30,000**
5% (conventional)	**$7,500**
3.5% (FHA)	**$5,250**
0% (VA Loan)	**$0**
The average military borrower has less than $7k in assets	

Even the FHA's minimum 3.5 percent down payment can prove a hurdle for many military families.

The biggest single benefit of the VA home loan program is that no down payment is required for the vast majority of purchases. In fact, 9 in 10 VA borrowers purchased without putting money down in 2010. No down payment requirement also means VA borrowers don't have to worry about PMI, which conventional lenders mandate for borrowers who cannot muster a 20-percent down payment.

The rare times a down payment is required involves purchases above the county loan limit, which in most places is $417,000 but can range above $1 million in high-cost parts of the country. A borrower who wants to purchase a home above that limit must pay 25 percent of the difference between the loan amount and the county loan limit.These outsized, "jumbo" loans do happen, but they're considerably more exception than rule.

Bottom Line: VA borrowers do not need cash on hand for a down payment, an incredible benefit in today's lending environment.

Earnest Money

Earnest money is basically a "good-faith" deposit that a buyer includes with an offer to buy a home. Earnest money is not required but is generally recommended by real estate agents. This deposit shows the seller that you are a serious buyer; in fact, most offers will not be accepted without the borrower putting down earnest money.

The earnest money deposit is held by the title company. If the purchase goes through, the earnest money is put toward the purchase price. If the purchase does not go through, the earnest money could either go back to the buyer or could be given to the seller depending on the contract.

How much earnest money should you include with your offer? There is no standard amount, as practices vary from area to area. Some industry experts say you should include 1 percent of the total purchase price, while others suggest a flat fee. Talk to your real estate agent about what is typical for your area.

Bottom Line: Earnest money is an up-front cost that's usually required for a seller to take your offer seriously. Bank on having anywhere from $200 to $2,000 for the deposit.

Appraisal fee

All VA borrowers must have their homes evaluated by a VA-approved appraiser. The appraiser estimates the value of the home and ensures that a home meets the agency's minimum property requirements, which are rooted in health and safety. The VA requires that homes be "move-in ready" before a loan can close.

Any repairs recommended by the VA appraiser must be completed in order for the loan to close unless the borrower can secure a temporary exemption.

VA Appraisal Fees for Selected States (for Single-Family Homes)	
Alaska	$625
Colorado	$400
Georgia	$400
New York	$375
Vermont	$425

Your lender will arrange a VA appraisal on your behalf. Prospective borrowers should allow up to 10 business days for the completion of the appraisal. The appraisal fee is typically paid by the buyer. The exact cost will depend on your location and the type of home you are buyingv, but appraisal fees average around $425 for a single-family residence. To find out the exact fee for your area, see www.benefits.va.gov/homeloans/fee_timeliness.asp.

It's important that prospective homebuyers understand an appraisal is not the same thing as a private home inspection, which we'll talk about next.

Bottom Line: Homebuyers should budget about $425 for an appraisal. The fee may be recouped from the seller at closing in some cases.

Home Inspection Fee

A home inspection takes place after a buyer and seller have signed the purchase contract. During this step of the process, a professional inspector examines the home for defects.

Although a home inspection is optional, it is strongly recommended for all homebuyers. The home inspection can unearth flaws that borrowers can use to re-open negotiations. For example, if the inspection reveals that new windows are necessary at a cost of $10,000, you can either ask the seller to fix the windows, give you a $10,000 allowance so that you can fix the windows, or you can walk away from the home purchase.

A buyer is typically responsible for the cost of the home inspection. The cost of an inspection will vary, but a common range is from $300-500, according to the U.S. Department of Housing and Urban Development. Considering the costly defects that could be revealed during the inspection, a $400 inspection is a great value for homebuyers.

Almost everything is negotiable during a real estate transaction, so it's possible to ask the seller to cover an inspection fee. But do you really want the seller paying for an inspection of his or her own property?

A Home Inspector will Inspect the Following:

- Heating system
- Central air conditioning
- Plumbing
- Electrical systems
- Roof
- Attic
- Insulation
- Walls
- Ceilings
- Floors
- Windows
- Doors
- Foundation
- Basement
- Structural components

Bottom Line: This is an essential tool for every military borrower. Set aside about $400 to cover the cost.

VA Funding Fee

The VA Funding Fee is a mandatory charge applied to all purchase and refinance loans. It is set by the VA and goes directly to the agency. The Funding Fee helps keep the VA loan program running and ensures that future generations of military homebuyers will have access to the home loan benefits earned by their service.

VA Funding Fee Rates for Purchases
(as a percent of the total loan amount)

	Down Payment	1st Time Use	Subsequent Use
Regular Military	none	2.15%	3.30%
	5%-10%	1.50%	1.50%
	10% or more	1.25%	1.25%
Reserves or National Guard	none	2.40%	3.30%
	5%-10%	1.75%	1.75%
	10% or more	1.50%	1.50%

Borrowers with service-connected disabilities are exempt from paying the fee, which changes depending on whether the type of loan and the borrower's previous loan utilization and service history. The VA Funding Fee does not have to be paid at closing and can be rolled into the overall loan amount. You can also ask the seller to pay the fee.

Bottom Line: Many VA borrowers will roll the VA Funding Fee into their loan, which typically adds a few dollars to their monthly mortgage payment, or ask the seller to pay this cost.

Closing Costs

Closing costs are fees and charges you pay in order to secure a loan and purchase or refinance a home. There are a host of types, including fees to the lender, a title company, an appraiser, a pest inspector and others.

But borrowers also have to worry about prepaid costs, which are up-front payments for things like homeowners insurance, property taxes and homeowner association dues. Together, closing costs and prepaid costs can add up to more than 5 percent of the loan amount.

To get a more accurate estimate of your closing costs, consult with your lender.

VA Closing Costs May Include

• Loan origination fee
This fee is charged by lenders to cover the administrative cost of your loan and generally amounts to 1 percent of the loan.

• Loan discount points (if applicable)
If you want a lower rate on your mortgage, you can choose to pay discount points to the lender. One discount point equals 1 percent of the loan amount. One discount point paid on a 30-year loan typically lowers the interest rate by 0.125 percent. Talk to your lender about your financial situation. VA borrowers do not typically pay points.

• Credit report fee (if applicable)
Some lenders charge a small fee to run your credit report.

• Underwriting fee
An underwriter reviews each VA loan application to ensure that both the borrower and the property meet all necessary requirements. Some lenders charge a fee for this process.

• Prepaid homeowners' insurance and property taxes
Your lender at closing will collect advance payments on homeowners' insurance and property taxes. Typically, your lender collects the amount due through the end of the current calendar year. This step is necessary to ensure homeowners' insurance and property taxes are properly paid. The lender will hold these funds in an escrow account and will transfer them to the appropriate party when due.

• Title search and title insurance
Before closing a title company search public records for liens against the property and other potential problems. Title insurance protects the buyer and the lender from being held liable for any problems missed during the title search. The fee for title insurance can vary widely. Some states regulate that all providers charge the same fee for title insurance, but in many states, it's worthwhile to shop around.

Your VA loan specialist can assist with the amount that may be needed from the seller, so it's important to contact your loan officer before placing an offer on your home.

The best way to save on closing costs is to ask your seller to cover them.

One of the other big-time benefits of VA loans is that sellers can pay up to 6 percent of the loan amount in closing costs and concessions. That means closing costs are an important discussion point during the negotiation process, especially in a buyer's market. Most of our borrowers pay little, if anything, in the way of closing costs because sellers cover the expense.

The VA allows the following closing costs to be paid by the seller (if the seller opts to do so):

- VA appraisal
- Loan origination fee
- Discount points (only if the buyer buys down the interest rate)
- Recording fees
- Survey, if applicable
- Title search and insurance
- Recording fees
- State and/or local transfer taxes, if applicable
- Homeowners and property taxes for the remainder of the current year

That doesn't mean every seller will agree to pay your closing costs

VA borrowers without the cash on hand to cover those up-front closing costs can try to offer a higher purchase price in order to get the seller to cover these costs. Most borrowers would rather pay a slightly higher amount for the house in order to avoid paying these costs out of pocket at closing. Just remember that your higher offer will be limited by the property's appraised value.

A less common route is for the borrower to take a higher interest rate on the mortgage, which allows the lender to use some of its compensation to pay those costs.

Thinking beyond up-front payments: Keep "reserve" funds available when purchasing a home

It's certainly important to make sure you have funds available to cover the up-front costs of a VA loan.

What's even more important? Making sure you have an emergency stash of housing funds available. These funds can be your saving grace if disaster strikes, protecting you from the devastating effects of foreclosure.

Lenders also like to see that you have reserve funds available. In fact, some lenders require that a borrower have at least two months of mortgage payments in "reserves" before they will issue a loan.

Think ahead and protect your home investment. No homeowner wants to deal with the headaches of foreclosure, so always try to have a few months' of mortgage payments squirreled away.

Bottom Line: It's common for sellers to agree to cover a buyer's closing costs, especially in a buyer's market. But in cases where the seller refuses, VA borrowers can try to offer a higher purchase price or even take a higher interest rate to avoid paying up front.

Verifiable Funds

All cash and reserve funds must be verifiable funds. Cash is not verifiable, which means lenders will need to see the funds from a savings or checking account that belongs to the borrower. All deposits must be traceable by payroll, retirement, account transfers and other means with supporting documentation.

Gift funds may be allowed as long as they are from an immediate family member and traceable from that family member to the borrower.

Conclusion

Borrowing a huge sum of money to purchase a home is going to come with some costs.

How can homebuyers keep those costs to a minimum?

The simplest way for eligible veterans to save on financing costs is to select a VA home loan. These flexible loans keep out-of-pocket costs low, if there are any at all, between the no-down payment option and caps on closing costs.

Make no mistake, though: VA borrowers will need some cash on hand for things like earnest money, home inspections and other potential up-front costs. Beyond that, having additional funds in reserve can strengthen your loan application and help convince underwriters you're a safe bet.

To that end, it's best to talk to a loan specialist about your specific circumstances to determine how much cash is enough.

Odds are it'll be a whole lot less than what you will need with other home lending programs.