FHA vs. VA Loans

Federal government loans like **FHA and VA loans** each have pros, consider each loan for your personal use:

HOW DO FHA LOANS WORK?

The Federal Housing Authority (FHA) will guarantee a lender payment of the loan if the borrower defaults. The guarantee is charged to the borrower in the form of a mortgage insurance premium that is collected both upfront and monthly. There are no income limits for qualifying for an FHA loan like those found in conventional first time home buyer programs. But, there are limits on how much you can borrow. Loan sizes are limited to small mortgages that are relative to home prices in your area. You need a reasonable debt to income ratio that is greater than 29/41. Plus a good credit rating.

FHA PROS

- Low down payments with as little as 3.5 percent
- No prepayment penalties
- Loans are assumable
- Offer flexible guidelines with respect to down payment, credit and ratios

FHA CONS

- Loan amounts are restricted, depending on area
- Monthly mortgage insurance premium due on loan
- Additional upfront mortgage insurance assessed

HOW DO VA LOANS WORK?

VA Loans are offered to eligible veterans. A veteran must supply the lender with evidence of honorable discharge from the military in order to be considered a qualified veteran. Additionally, veterans are only allowed to have one VA loan. Veteran spouses are also eligible for financing. Lenders are provided with a government guarantee to offer the program to veterans. There is a funding fee associated with all VA loans that is typically financed.

VA LOAN PROS

- Home choices include a new or existing single family home, townhouse, condo (VA approved project), manufactured home and lot as well as certain kinds of home improvements.
- **No down payments – 100 percent financing is available on many loans**
- No prepayment penalties
- No Private Mortgage Insurance (PMI).
- No penalties if you prepay the loan.
- Interest rates are competitive.
- Flexible qualification standards: such as ratio and down-payment requirements.

VA CONS

- Loans made before March 1, 1988 can be assumed by a new buyer without qualifying. However, if the new buyer defaults, the original borrower may be liable for the remaining loan payments.
- VA loans take longer to process than conventional loans. This sometimes makes potential lenders hesitant to get involved and may cause more search time finding a willing lender.
- Since sellers are required to pay closing costs, they may not be willing to negotiate the sale price.
- A 2 percent fee is payable to the VA (2.75 percent for Reservists) at closing.

Both VA and FHA offices offer information online and free assistance to all borrowers.