

VA Loan vs Conventional: Which Mortgage Is Right for You?



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VA Loan vs conventional — how do they compare?

If you've served in the armed forces, you may be eligible for a VA loan to help you purchase or refinance a home.

These loans are great for many veterans and active-duty servicemembers because they require no down payment and have no limits on how much you can borrow, depending on how much VA benefit you have available.

But if you qualify for a conventional loan, that's an option worth considering as well.

Some conventional loans require as little as 3% down, and while that's not as good a deal as 0% down, you may be able to use gift funds toward the down payment.

So you'd get to buy a home with no money out of pocket, and you'd have more flexibility in the types of properties you can buy.

And that's just the tip of the iceberg when comparing the trade-offs of these loan programs.

That's why we've done a deep dive on how VA loans and conventional loans stack up, so you can figure out the best option for your homebuying plans.

[Check your eligibility for VA and conventional loans.](#)

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VA loan vs conventional head-to-head

Most often, eligible veterans will choose a VA loan. That's because they don't require a down payment†, typically offer lower rates than conventional, and have no monthly PMI

But there are a few reasons you might choose conventional over VA:

1. You have a 20% down payment and want to avoid the upfront VA funding fee
2. You want to buy a vacation home or rental property
3. The home doesn't meet VA minimum property requirements

But this isn't the end of the story. There are many more variables to consider when choosing between conventional and VA.

But first, it helps to have some context on each program and who qualifies.

What is a VA loan?

[VA loans](#) are backed by the [U.S. Department of Veterans Affairs](#) (VA), and they're available to veterans, active-duty servicemembers, and Reservists from all branches of the military, as well as eligible surviving spouses:

- Army
- Navy
- Air Force
- Marine Corps
- Coast Guard
- National Guard or Reserves
- National Oceanic Atmospheric Administration (NOAA)
- Public Health Service (USPHS)
- Cadets at the US Military, Air Force, or Coast Guard Academies
- Midshipmen at the US Naval Academy
- Veterans of all branches
- Surviving military spouses who have not remarried and whose significant other:
 - Died in service
 - Died from a service-related injury or disability
 - Has been declared a POW (Prisoner of War) or MIA (Missing In Action) for at least 90 days

If you're a veteran, you must have been honorably discharged and if you're on active-duty, your current service record must be in good standing.

Both veteran and active-duty borrowers must also meet length of service requirements.

LENGTH OF SERVICE REQUIREMENTS

Service Period	Dates	Active-duty requirement
World War II	9/16/40-7/25/47	90 total days*
Post-World War II	7/26/47-6/26/50	181 continuous days*
Korean War	6/27/50-1/31/55	90 total days*
Post-Korean War	2/1/55-8/4/64	181 continuous days*
Vietnam War	8/5/64-5/7/75	90 total days*
Served in the Republic of Vietnam	2/28/61-5/7/75	90 total days*
Post-Vietnam War (May 8, 1975-Sept. 7, 1980)	5/8/75-9/7/80	181 continuous days*
Served as an officer	5/8/75-10/16/81	181 continuous days*
Unnamed era	9/8/1980-8/1/90	24 continuous months or the full period during which you were called to active duty (minimum 181 days)**
Served as an officer	10/17/81-8/1/90	24 continuous months or the full period during which you were called to active duty (minimum 181 days)**

Service Period	Dates	Active-duty requirement
Gulf War	8/2/90-present	24 continuous months or the full period during which you were called to active duty (minimum 90 days).***
Separated from service after Sept. 7, 1980	After 9/7/80	24 continuous months or the full period during which you were called to active duty (minimum 181 days).***
Separated from service and served as an officer	After 10/16/81	24 continuous months or the full period during which you were called to active duty (minimum 181 days).***
Currently on active duty	n/a	90 continuous days
National Guard/Selected Reserve	8/2/90-present	90 days active duty or 6 years and now honorably discharged, placed on retired list, transferred to Standby/Ready after honorable service, or continue to serve in Selected Reserve
Discharged with Service-Related Disability	n/a	No minimum service requirements
Dishonorable Discharge	n/a	Not eligible for VA home loan

**Eligible if served fewer days but discharged due to service-connected disability*

***No allowance for fewer service days if discharged due to service-connected disability*

****Eligible with minimum days if you were discharged due to a government decision, reduction in force, or a hardship. Eligible with less than minimum days only if separated due to service-connected disability.*

VA ENTITLEMENT

Eligible VA borrowers who have never used their VA benefit or have full entitlement available can buy homes with zero down payment.

Borrowers who currently have a VA loan but still have entitlement available may be able to buy another home with zero down, or they can use a second VA loan with a down payment.

Wondering if you have entitlement available? [Check out our guide on how to find your VA certificate of eligibility.](#)

VA loan entitlement doesn't expire, so you may be able to buy multiple houses with a VA loan within your lifetime. However, if you don't have entitlement available — whether that's because you already have a VA loan or a past loan has not yet been repaid — you won't be able to use the program until entitlement has been restored.

Learn more: [How many times can you use a VA home loan?](#)

What is a conventional loan?

A [conventional mortgage](#) is the most common type of home loan. Unlike VA loans, conventional loans are not government-backed. Instead, they're regulated by the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac.

Also unlike VA loans, conventional loans are available to all qualified homebuyers, rather than just members of the military community.

Many people use “conventional loans” and “conforming loans” interchangeably, but there's an important distinction.

DEFINITIONS

Conventional loan: All non-government-backed loans

Conforming loans: Loans that “conform” to Fannie Mae and Freddie Mac guidelines

Unless otherwise stated, we'll be referring to conforming loans in this article.

OK, now let's see how VA vs conventional loan requirements stack up

Before we get into the nitty-gritty, here's a quick comparison of VA loans vs conventional loans.

Requirement	VA	Conventional
Credit score	580	620
Down payment	0%	3%
Property requirements	Primary residence only; must meet VA's minimum property requirements	Primary residence, second home, vacation home, and investment properties
2022 loan limits	None with full entitlement; \$647,200–\$970,800 for a single-family home with partial entitlement	\$647,200–\$970,800 for a single-family home with partial entitlement

Credit score

The minimum credit score to qualify for a conventional is 620. However, lenders can set their own guidelines and some may require higher scores.

The VA's suggested [minimum credit score](#) is 580. But again, lenders can set their own credit score requirements, and some will set their VA loan minimums at 620 or higher.

But here's the good news if you have a low score — the VA encourages lenders to give VA loans to creditworthy servicemembers, so they have the discretion to approve you even if your score is lower than 580.

Now, if you qualify for both a VA and conventional loan and your credit score is below 680, here's a tip. Lenders sometimes give higher interest rates to borrowers with scores of 679 and below.

VA loans tend to have some of the lowest rates in the market. So if you have a lower score, you may want to go with a VA mortgage instead of a conventional loan to save on interest.

Your interest rate will depend on your credit score, down payment, where you live, and other factors, so it's best to get quotes for both programs from several lenders so you can evaluate which is most cost-effective for you.

[Connect with an experienced lender to check your credit score.](#)

Down payment

VA borrowers who have full entitlement available can get a home loan with 0% down†. Those who have partial entitlement may qualify with 0% down depending on the amount of entitlement available, the purchase price of their home, and loan limits in their area.

Don't worry, you don't need to make these calculations yourself. When you apply for a VA loan, your loan officer can pull up your certificate of eligibility (COE) within minutes to see how much entitlement you have available.

Conventional loan down payment requirements are now as low as 3%. In the past, you needed a 20% down payment to buy a home, so the new guidelines make it significantly easier to qualify for a loan.

Those who can come up with a 20% down payment easily might consider a conventional loan, since there is no upfront funding fee. More on VA funding fees later.

Related reading: [Conventional 97 Loan: How to Qualify for a Low Down Payment Mortgage](#)

USING GIFTS FOR YOUR DOWN PAYMENT

If you have partial entitlement and need to make a down payment on a VA loan, the VA allows you to use gift funds (such as from friends and family) or down payment assistance toward that cost. And if you qualify for a 0% down VA loan, you can use gifts toward your closing costs, further reducing the upfront cash you need to buy your home.

A number of conventional loan programs allow you to use gift funds toward your down payment as well. Fannie Mae HomeReady and Freddie Mac's HomeOne and Home Possible programs let you use gifts to cover the entire down payment amount.

Some conventional loan programs may require a minimum borrower contribution, meaning a certain percentage that must come from your own funds. But the three mentioned above, all of which are great options for first-time homebuyers, have no minimum contribution rules.

Learn more: [Top 12 No Down Payment Mortgages for 2022](#)

Debt-to-income ratio

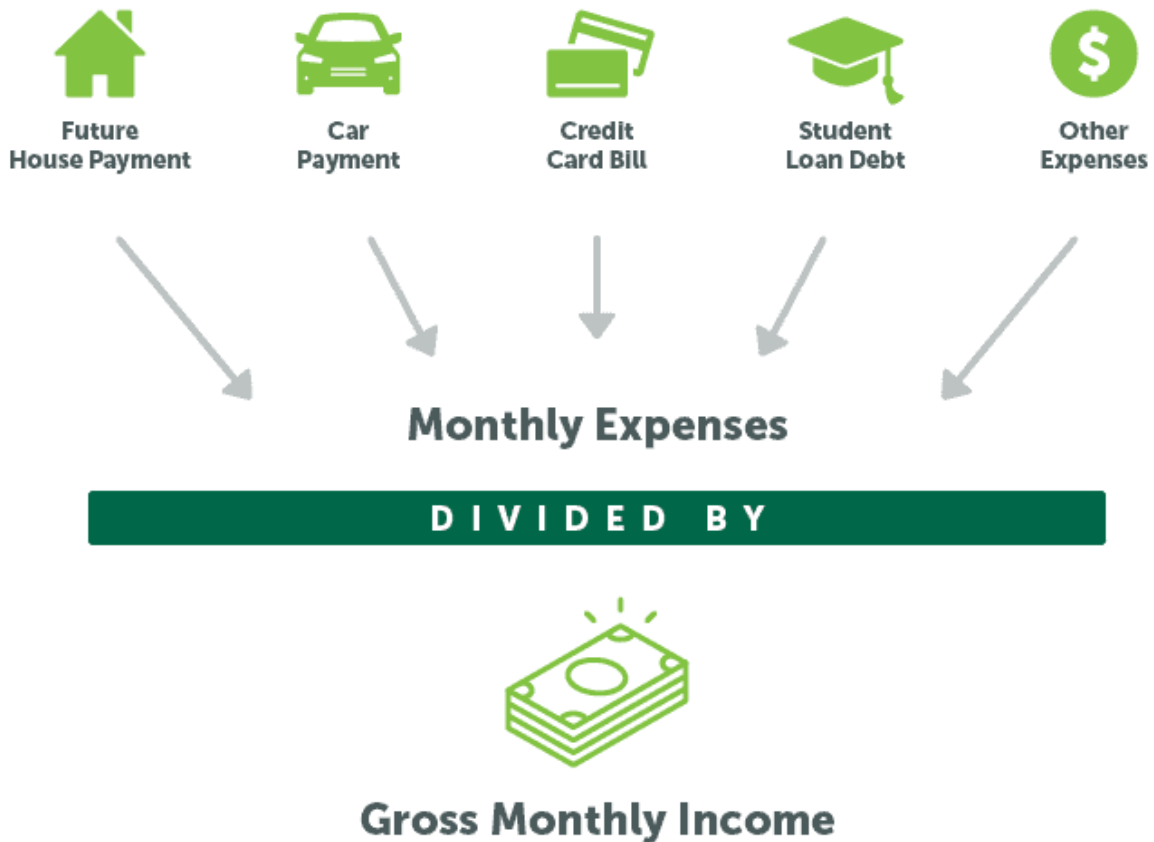
Debt-to-income ratio (DTI) refers to your total monthly debt obligations — including your housing payment — as a percentage of your gross monthly income (meaning your income before taxes and deductions).

When it comes to DTI, the VA allows flexibility. A mortgage lender can approve a borrower with a higher DTI for a VA loan if they have compensating factors, such as a high credit score and steady income, to counterbalance it.

Conventional loan DTI is based on the Automated Underwriting response for your loan. But the lower you can get that number, the better. A lower DTI can increase your chances of qualifying for a conventional and make you eligible for more competitive interest rates.

A low DTI signals less risk to lenders, since you're less likely to have trouble making your monthly mortgage payment on top of your other debts.

How to Calculate Your Debt-to-Income Ratio (DTI)*



*Debt-to-income (DTI) ratio is monthly debt/expenses divided by gross monthly income. © Home.com. Reproduce only with permission.

Property types

Both VA loans and conventional loans can be used for several property types, including:

- Single-family homes
- Multifamily properties up to four units
- Condos
- Townhouses
- Manufactured homes

A big difference between these mortgage loans is that VA loans cannot be used to buy a vacation home or investment property while conventional loans can. The VA loan can only be used to buy a new primary residence.

Here's a hack, though: buy a multifamily property with a VA loan and live in one of the units while you rent out the others. That satisfies the primary residence requirement while also giving you a chance to earn some extra income.

Property requirements

The VA issues strict [minimum property requirements](#) (MRPs) for the homes it will back. The MRPs are meant to ensure that veterans and servicemembers are buying homes that are safe, structurally sound, and provide adequate living space, plumbing, and other critical amenities.

Before a lender can approve a VA loan, a VA-approved appraiser will need to look over the property to make sure it meets those MRPs and to assess the home's value. If the appraiser flags any issues for repair, those fixes must be completed before the loan can close.

And if the appraisal comes in lower than the purchase price, you'll need to negotiate with the seller. Lenders cannot issue VA loans for more than the home is worth.

Conventional loans also require appraisals, as lenders also need to ensure that they aren't giving loans worth more than the home's fair market value.

An appraiser for a conventional loan assesses the safety and livability of the property, and the home must be assessed at a value equal to or greater than the loan amount. But the requirements can be less exacting than those issued by the VA.

Learn more: [VA Home Loan Property Requirements \(MRPs\): A to Z Guide](#)

A note on VA property appraisals

Because of the MRPs and the VA appraisal rules, VA loans have gotten a reputation for being harder to close.

Some sellers prefer offers with conventional loans because they assume the sale is more likely to go off without a hitch. They worry that accepting a VA offer means they'll need to make costly repairs or settle for a lower sale price.

But that's not necessarily true. VA borrowers are qualified buyers, especially those who come to the table with [underwritten preapprovals](#). As for the MRPs, the VA wants to ensure the home is in good, livable condition. If a property is well-maintained, with no hazards or glaring issues, it has a good chance of passing the appraisal.

If you opt for a VA loan, it's critical that you work with both a real estate agent and a lender that have a record of working with VA borrowers. They will help you navigate the VA property guidelines, and a good real estate agent can help you craft a winning offer with a VA loan.

Related reading: [How to Get a VA Offer Accepted: 7 Tips to Stand Out in a Hot Market](#)

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But that's not necessarily true.

Loan limits

VA borrowers who have full entitlement do not have loan limits. But those who have partial entitlement will be subject to loan limits, just as conventional conforming borrowers are.

The 2022 loan limits for conforming loans and VA loans with less than full entitlement are the same:

Property type	Contiguous States; Washington, D.C. & Puerto Rico	High-cost areas, Hawaii, Alaska, Guam & the U.S. Virgin Islands
Single-family home	\$647,200	\$970,800
Duplex	\$828,700	\$1,243,050
Triplex	\$1,001,650	\$1,502,475
Fourplex	\$1,244,850	\$1,867,275

Loan limits can change annually. The figures in this table were accurate at the time they were published.

Loan limits are based on local housing prices, so they vary based on where you live and the type of home you're buying. The limit for a single-family home in most areas in the U.S. is \$647,200. But the limits can reach up to \$970,800 in high-cost areas.

Conventional private mortgage insurance vs VA loan funding fee

Conventional loans require [private mortgage insurance \(PMI\)](#) when borrowers put down less than 20%. PMI rates are usually 0.5-1.5% of the loan amount, though your rate will depend on your credit score, down payment, and other factors.

Once you have reached 20% equity in your home, you can request that the PMI requirement be removed.

VA loans do not have a monthly private mortgage requirement, but they do have an upfront funding fee.

The funding fee amount depends on your down payment amount and whether you're using your VA home loan benefit for the first time or for subsequent purchases.

VA FUNDING FEES FOR FIRST-TIME BORROWERS

Down payment	Funding fee
0%	2.30%
5-9%	1.65%
10% or more	1.40%

VA FUNDING FEES FOR SUBSEQUENT HOME LOANS

Down payment	Funding fee
0%	3.60%

Down payment	Funding fee
5-9%	1.65%
10% or more	1.40%

VA borrowers who have a service-related disability may be exempt from the funding fee.

[Connect with experienced lender to weigh your options.](#)

VA vs conventional loan mortgage rates

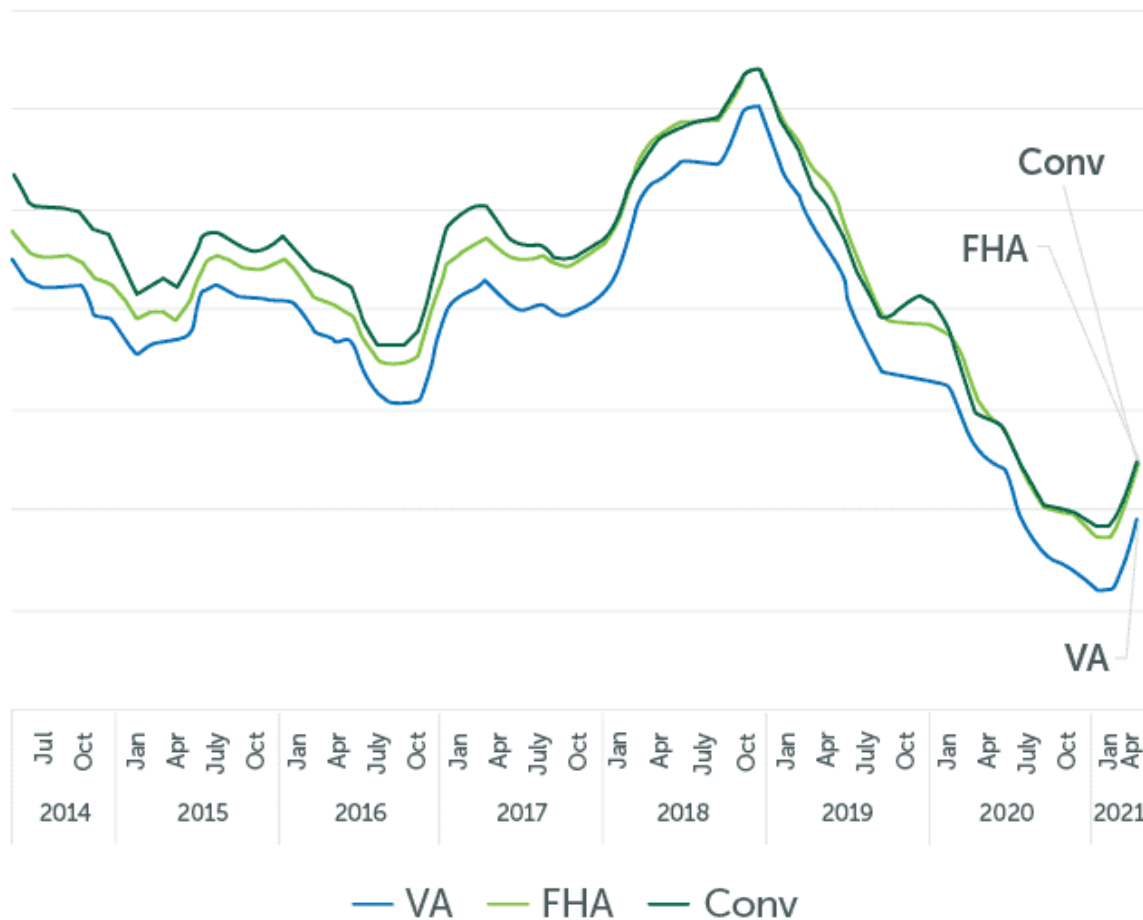
Mortgage rates fluctuate often, and the rate you'll receive depends on your credit score, down payment, loan amount, and where you're buying.

But looking at VA vs conventional rates generally, VA loans have had the lowest rates in the market for the past several years, even more so than the other government-backed loan programs (USDA and FHA loans).

Still, borrowers with high credit scores and solid finances can qualify for competitive conventional loan interest rates as well.

Your best bet is to request quotes from several lenders so you can compare the costs on different loan programs from different companies and choose the all-around best fit.

VA vs. FHA and Conventional Loan Rates



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VA loan vs conventional loan FAQs

✕ Is a VA loan better than a conventional loan?

A VA loan is one of the best mortgage options in the market — if you're eligible, that is. Only veterans, active-duty servicemembers, and some surviving spouses can qualify for these zero down loans.

VA loans don't require mortgage insurance, and borrowers with full entitlement don't have loan limits, either. They can also be more affordable for homebuyers with lower credit scores, as conventional loan interest rates can be higher for borrowers with credit scores under 680.

But conventional loans offer a lot of benefits as well. The minimum down payment is just 3%, and the private mortgage insurance (PMI) requirement ends when you reach 20% home equity. If you put down 20% on a conventional loan, you don't have to pay PMI at all.

In the current housing market, some sellers prefer offers with conventional loans to those with VA financing.

+ What are the disadvantages of a VA loan?

+ Why are VA home loans bad?

VA loan vs conventional: How do I choose?

Deciding whether to go with a VA or conventional loan comes down to your financial situation and goals.

If you qualify for a VA loan and you're buying a home that will be your primary residence, VA loans are hard to beat. No down payment, no loan limits, no private mortgage insurance, and a chance at low interest rates — that's tough to turn down.

However, conventional loans are the leading loan type for a reason. They're attractive to sellers, the property requirements are less strict, and you can use them to buy a vacation home or investment property.

The good news is, you don't have to decide which type of loan to use on your own. When you apply for preapproval, your lender will tell you the programs you're eligible for and can explain the pros and cons of each.

They can also give you an estimate of your loan costs for both a VA and conventional mortgage so you can go over the numbers and figure out which one best aligns with your budget and homebuying goals.

[Get preapproved* with a VA and conventional mortgage lender.](#)

†A down payment is required if the borrower does not have full VA entitlement or when the loan amount exceeds the VA county limits. VA loans subject to individual VA Entitlement amounts and eligibility, qualifying factors such as income and credit guidelines, and property limits. Fairway is not affiliated with any government agencies. These materials are not from VA, HUD or FHA, and were not approved by VA, HUD or FHA, USDA or RD, or any other government agency.

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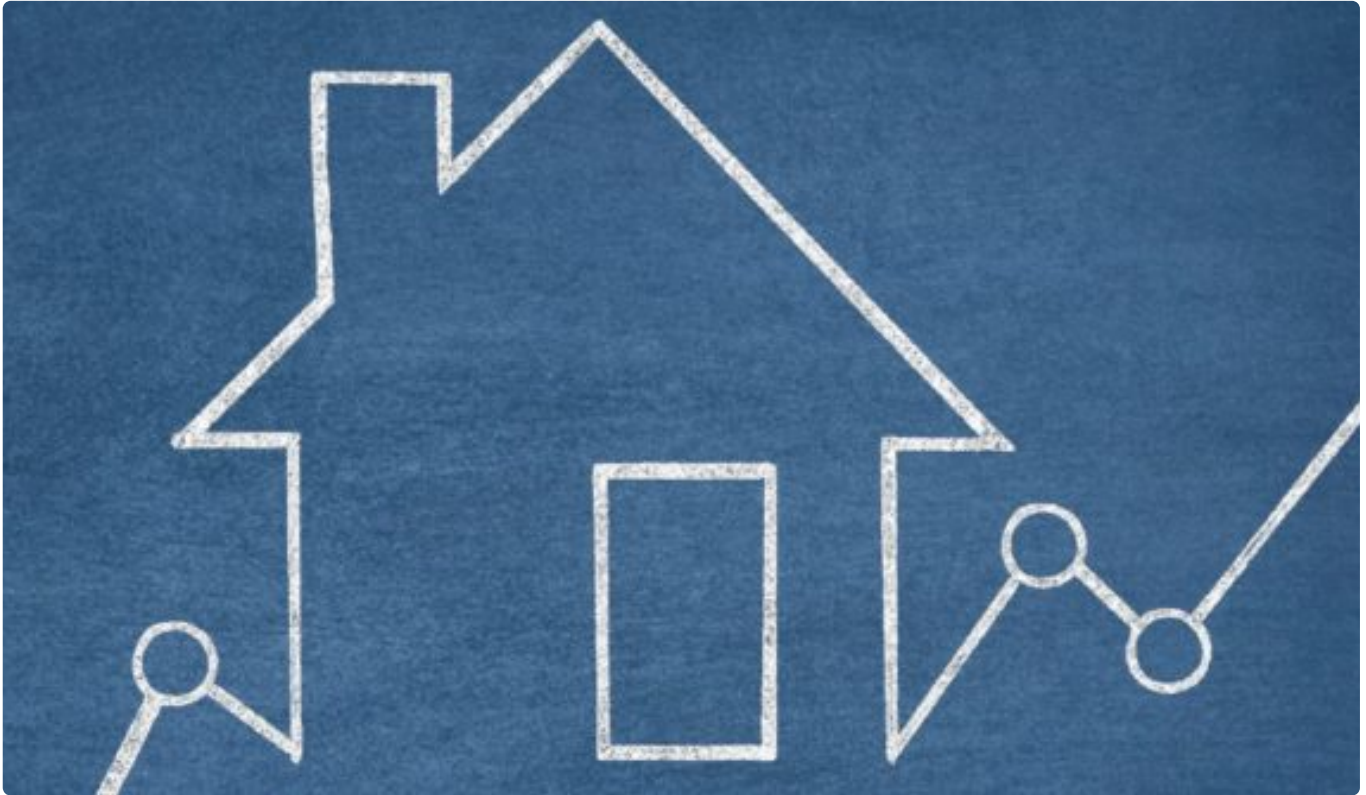
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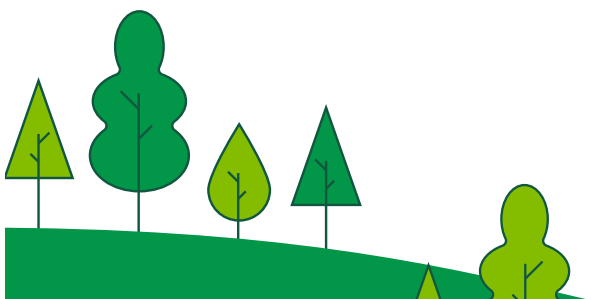
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