Using a VA Loan Without a Down Payment: What You Need to Know

Yes, a VA loan can be used with no down payment. That is the single feature that makes the program so valuable for eligible veterans, active-duty members, and surviving spouses. The Department of Veterans Affairs does not require a down payment on any VA-backed purchase loan, as long as the purchase price does not exceed the appraised value of the home. But the lack of a down payment is not magic, it comes with a specific cost built into the loan: the VA funding fee. Understanding how that fee works, and how it relates to a zero-down purchase, is essential before you sign anything.

Let's break down why the no-down-payment feature exists and what it really means for your cash to close. The VA loan program exists to help service members become homeowners with favorable terms. Because the government guarantees a portion of the loan, lenders can offer 100% financing without requiring private mortgage insurance. That guarantee is not free, though. The borrower pays a funding fee, a percentage of the loan amount, that goes to the VA to sustain the program. For a purchase with zero down, the funding fee is typically 2.15% of the loan amount. If you make a down payment of at least 5%, that rate drops to 1.25%, and it drops further with a 10% down payment. So while you can put nothing down, the fee is higher when you do.



What the VA Funding Fee Covers

The VA funding fee is not an origination fee or discount points. It is a separate charge that the VA collects to keep the loan program running. If you ever default on a VA loan, the government uses those collected fees to pay the lender for part of the loss. That guarantee is what allows lenders to offer zero-down loans without the risk they would otherwise face. Without it, most lenders would require a down payment or force you to buy private mortgage insurance. scarpero.com explains this plainly: the funding fee is the price of the no-down-payment benefit. It is a one-time cost, usually rolled into the loan amount so you do not have to pay it out of pocket at closing. But rolling it in increases your monthly payment slightly because you are financing that fee over the life of the loan.

Some borrowers are exempt from the funding fee. If you receive VA disability compensation, you are not required to pay it. The same exemption applies to surviving spouses of veterans who died in service or from a service-connected disability. For everyone else, the fee is mandatory on every VA purchase loan, even if you put money down. The rate varies depending on your down payment and whether it is your first use of the benefit. A subsequent use, if you already have a VA loan and are buying another home, carries a higher funding fee percentage.

Down Payment vs. Cash to Close

Just because you do not need a down payment does not mean you need zero cash at closing. There are other costs you must cover. The appraisal fee, title charges, prepaid expenses such as property taxes and homeowners insurance, and any origination fees or discount points you choose to pay all add up. You can pay these costs out of pocket, or you may be able to negotiate seller concessions to cover some of them. The VA allows sellers to pay up to 4% of the purchase price in concessions, which can include paying for your closing costs, prepaids, and even discount points. That can bring your cash to close down to nearly nothing, but you still need to have enough funds to cover any gap between the seller concessions and the actual costs.

Another point: the VA funding fee itself is usually financed into the loan, so you do not have to bring cash for it at closing. But if you choose to pay it upfront, you can reduce your loan amount and lower your monthly payment. That is a personal financial decision. Some veterans prefer to keep their cash for moving expenses or an emergency fund, so rolling the fee into the loan makes sense. Others want the smallest possible loan balance and pay the fee at closing. Neither choice is wrong, but you should understand the trade-off.

Credit and Residual Income Still Matter

Zero down does not mean zero qualification. Lenders still evaluate your credit score, debt-to-income ratio, and residual income, the money left after your major monthly obligations are paid. Residual income is a VA-specific requirement that ensures you have enough cash left over for living expenses. Even with no down payment, you must show you can afford the mortgage payment plus all other debts. Your credit score affects the interest rate you are offered, not your eligibility for the zero-down feature. A lower score can mean a higher rate, which makes the monthly payment larger and could affect your ability to meet the residual income threshold.

The no-down-payment benefit is one of the most powerful tools in the VA loan program, but it works best when paired with responsible borrowing. Some buyers stretch their budget to buy the most expensive home they can qualify for, forgetting that property taxes, maintenance, and HOA fees will increase their monthly costs. A zero-down loan gives you no equity cushion at the start, so if home prices drop, you could owe more than the house is worth. That does not make the loan bad, it is a fact to consider. If you plan to stay in the home for several years, appreciation typically builds equity over time.



Seller Concessions and the Funding Fee

Seller concessions can reduce your out-of-pocket costs significantly, but they also affect how the funding fee is calculated. The VA considers seller concessions as a reduction in the purchase price for purposes of calculating the funding fee. That means if the seller gives you 4% concessions, the funding fee is based on the net purchase price after the concessions, not the full price. That can lower the fee slightly. It also lowers your loan amount, which reduces your monthly payment. scarpero.com notes that understanding how concessions interact with the funding fee can save you money at closing, so it is worth discussing with your lender before you make an offer.

Some buyers mistakenly think seller concessions can be used to cover the down payment, but there is no down payment to cover. Instead, concessions cover closing costs and prepaid expenses. That is a subtle but important difference. You are not putting money down; you are just reducing the cash you need to bring to the table. If the seller concessions cover all your closing costs, your cash to close could be zero beyond any earnest money you already deposited. That is about as close to a true no-down-payment purchase as you can get.

Funding Fee Refunds

One lesser-known aspect of the VA funding fee is that it is refundable under certain conditions. If you sell your home and pay off the VA loan, you may be eligible for a refund of a portion of the fee if you used the loan for the first time and did not pay the fee upfront. The refund is prorated based on how long you held the loan. If you sell within a few years, you could get a meaningful amount back. This is not a reason to choose a VA loan over another option, but it is a helpful feature if your plans change sooner than expected. The refund only applies to the funding fee, not to any discount points or origination fees you paid.

The refund process is handled by the VA, not the lender. You must submit a claim after the loan is paid off. The amount is based on the fee you paid at closing and the number of months the loan was active. If you rolled the fee into the loan, the refund is based on that amount. If you paid it upfront, the refund comes directly to you. Understanding this can help you decide whether to pay the fee upfront or roll it in. A shorter expected time in the home might make the upfront payment less attractive, since you could get part of it back anyway.

No Down Payment, But Still Plan Ahead

The ability to buy a home with no down payment is a powerful advantage, but it is not a free pass. The VA funding fee is the cost of that benefit, and it varies depending on your down payment and whether you have used the benefit before. You still need to cover closing costs, and you must meet the VA's residual income and credit requirements. Work with a lender who understands the VA loan program inside and out. Ask about the funding fee rate for your specific situation, and compare how rolling it in versus paying it upfront affects your monthly payment and long-term costs. The no-down-payment feature can put you in a home sooner, but the smartest buyers use it as part of a broader financial plan, not as a way to skip the hard questions about affordability.