

# How Can FHA Help Me Buy a Home?

**FHA mortgages offer many benefits and protections that only come with FHA:**

- **Easier to Qualify:** Because FHA insures your mortgage, lenders may be more willing to give you loan terms that make it easier for you to qualify.
- **Less than Perfect Credit:** You don't have to have a perfect credit score to get an FHA mortgage. In fact, even if you have had credit problems, such as a bankruptcy, it's easier for you to qualify for an FHA loan than a conventional loan.
- **Low Down Payment:** FHA loans have a low 3.5% down-payment and that money can come from a family member, employer or charitable organization as a gift. Other loan programs don't allow this.
- **Costs Less:** FHA loans have competitive interest rates because the Federal government insures the loans. Always compare an FHA loan with other loan types.
- **Helps You Keep Your Home:** The FHA has been around since 1934 and will continue to be here to protect you. Should you encounter hard times after buying your home, FHA has many options to help you keep you in your home and avoid foreclosure.

FHA does not provide direct financing nor does it set the interest rates on the mortgages it insures. For the best interest rate and terms on a mortgage, you should compare mortgages from several different lenders. In order to initiate the loan application process, please contact an FHA approved lender.

An FHA insured mortgage may be used to purchase or refinance a new or existing 1-4 family home, a condominium unit or a manufactured housing unit (provided the manufactured housing unit is on a permanent foundation).

## **What are the advantages of refinancing to a fixed rate FHA mortgage?**

There are significant advantages to refinancing to an FHA mortgage with a fixed interest rate, particularly if you currently have a higher cost mortgage or have a mortgage that has an adjustable or a variable interest rate, optional payments or interest only payments that will increase in the near future. Borrowers with adjustable or variable interest rate mortgages or interest only payment mortgages often encounter much higher monthly payments ("payment shock") after having the mortgage for just a few years.

You don't have to have perfect credit to get an FHA fixed rate mortgage. Even if you have had credit problems, such as a bankruptcy, you may still qualify for an FHA mortgage. Should you encounter hard times after refinancing your home, FHA has programs to help you keep you in your home and avoid foreclosure.

An FHA fixed interest rate mortgage may be used to refinance a new or existing 1-4 family home, a condominium unit or a manufactured housing unit (provided the manufactured housing unit is on a permanent foundation).

## **What are the basic eligibility requirements for FHA financing?**

FHA insures mortgages made by approved lenders to individuals and non-profit and government agencies that are approved to participate in HUD's programs; HUD does not loan money to homebuyers.

Generally, to be eligible for an FHA loan, you must have a valid social security number and have lawful residency in the United States and be of a legal age to sign on a mortgage in your state. Lenders will verify income, assets, liabilities, and credit history for all parties on the loan. With an FHA loan, you cannot take an ownership interest in a property without qualifying for the loan.

Using FHA's guidelines, lenders will make a credit determination based on the merits of each case. FHA does not have minimum credit score requirements. However, past credit performance serves as a guide in determining a borrower's attitude toward credit obligations and predicting a borrower's future actions. Subsequently many lenders will not consider approving an FHA loan if the prospective borrower's credit score is less than 600. To find out if you qualify, and how much you can borrow based on your income and debts, you should contact a HUD-approved lender.

FHA's mortgage programs do not typically have maximum income limits for qualifying, although you must have sufficient income to qualify for the mortgage payment and other debts. Income limits may be present when qualifying for down payment assistance or other secondary financing programs (including those funded by HUD) that may be used in conjunction with an FHA loan.

## **When can I stop paying my monthly FHA mortgage insurance premium?**

Termination of the FHA monthly mortgage insurance premium (MIP) is based on several factors including: the loan term, loan-to-value (LTV) at loan origination and regulations in place when the loan is closed. Generally, loans closed prior to January 1, 2001 will not be eligible for termination of MIP, which is collected as part of your monthly mortgage payment.

For loans closed on or after January 1, 2001, FHA's MIP will be automatically terminated under the following conditions:

For mortgages with terms more than 15 years, the MIP will be terminated when the Loan to Value (LTV) ratio reaches 78%, provided the borrower has paid the MIP for at least five years. If the LTV reaches 78% and the borrower has not paid MIP for at least five years then the borrower must continue to pay MIP until the five year requirement is met.

For mortgages with terms 15 years and less and with LTV ratios of 90% and greater, the MIP will be terminated when the LTV ratio reaches 78%, irrespective of the length of time the borrower has paid the MIP.

Mortgages with terms 15 years and less and with LTV ratios of 89.99% and less will not be charged MIP.

Although the MIP will be terminated as described, the FHA insurance will remain in force for the loan's full term. This MIP termination provision only applies to loans where the borrower also paid an Up-front MIP at closing.

FHA will determine when a borrower has reached the 78% LTV ratio based on the lesser of the sales price or appraised value at loan origination. For example, if the lesser of the sales price or the appraised value at origination was \$100,000, when the loan amount reaches \$78,000, HUD will no longer collect MIP on the loan.

FHA's regulations do not permit a borrower to submit a new appraisal to reach the threshold for termination of MIP. Termination of MIP will normally be based on the scheduled amortization of the loan. However, borrowers may reach the 78% threshold in advance of the scheduled amortization because of prepayments of loan principal. A borrower whose loan reaches the 78% LTV threshold sooner than projected because of prepayment may have the MIP terminated (but not sooner than five years from loan closing for loans with terms greater than 15 years) if the borrower has not been more than 30 days delinquent in paying the mortgage payments during the previous 12 months. The borrower must submit a termination request to the lender and the lender must provide the borrower's request and supporting documentation with respect to the mortgage payments during the last 12 months to FHA for such termination.

NOTE: This information was found on the official Federal Housing Authority website. For more information, visit [www.fha.gov](http://www.fha.gov).

FHA's DISCLAIMER: All policy information contained in this knowledge base article is based upon the referenced HUD policy document. Any lending or insuring decisions should adhere to the specific information contained in that underlying policy document.

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