



FHA Home Loans

Not Just For First Time Buyers



Authored by Steve Landis

Whether this is your first home or your third, an FHA loan may be your best solution. FHA loans are designed by the Department of Housing and Urban Development (HUD) to increase home ownership by offering loans with low down payments and affordable rates and terms.

The National Associations of Realtors, NAR, is projecting **FHA will represent approximately 30% of the mortgages obtained in 2009** up from 3% of total mortgages in 2006. Want to know why they are so popular? Read on.

What is an FHA Loan?

FHA is a category of mortgage loans sponsored by HUD offering government insured low cost mortgage programs. They are designed to make homeownership more affordable to a broader range of prospective buyers. FHA loans differ from conventional Fannie Mae/Freddie Mac programs in *who* can qualify and under *what circumstances*.

Who is Eligible?

You are eligible if you meet the credit, income and employment requirements. FHA loans are not limited to first time buyers, but the guidelines allow for only ONE FHA financed mortgage and it must be a primary residence.

What Makes These So Attractive?

In summary, low down payment, low cost mortgage insurance and flexible underwriting criteria which can accommodate many situations that Fannie Mae and Freddie Mac (non government sponsored conventional loans) do not.

How is FHA Different ?

To truly appreciate how amazing FHA programs are, take a moment to understand the parameters and new limitations surrounding conventional financing.

As of January 2008, conventional Fannie/Freddie offerings are now subjected to new pricing guidelines referred to as **Risk Based Pricing**. (RBP) The new guidelines apply to all conforming mortgage loans (up to \$417K) except VA and FHA.

What is Risk Based Pricing?

A set of underwriting guidelines comprised of approximately 40 risk factors where Loan-to-Value (LTV), credit score and a host of other factors determine what rate a borrower qualifies for based on *their risk profile*. Before this was announced, a 30 year fixed rate loan was basically the same price for any borrower under a more Pass/Fail system. A credit score of 680 or higher and a loan amount up to 95% of the home value, would qualify buyers for the best rates available. Fannie/Freddie now require a minimum 740 credit score, under 70% LTV and the right combination of risk factors to achieve the best rates.

It is important to stop here and mention again, FHA has NOT adopted the Risk Based Pricing Matrix.

Loan Programs Available

Many of the same offerings you find in other forms of financing are available through FHA. They include 30 year fixed rate mortgages, and 5/1, 3/1 ARM's. These programs are available for purchase, refinance and **low cost streamline refinance on existing FHA loans**. Guidelines allow a purchase price up to \$375K, or refinance up to \$362,250 with no ceiling on income to qualify. FHA typically offers more flexibility on credit score and down payment. (Note: HUD announced maximum loan amount increases on 2-25-09. Implementation by lenders varies.)

Summary Of FHA Advantages

•3.5% Down Payment.

Non FHA typically requires 5% +

•Seller can contribute up to 6% in closing costs pre-paid items, and rate buy downs.

Conventional loans top out at 3% contributions.

•Low Cost Mortgage Insurance (MI) sponsored by HUD.

Not available on non FHA loans, private MI is more expensive and subject to RBP adjustments

•Reduced Credit Score Requirement, 580 Minimum with NO Risk Based Pricing Adjustment.

Conventional loans 620 min.-all subject to RBP adjustments.

•Down Payment AND all funds needed to close can be a gift or loan from a family member.

Non FHA - not an option.

•Non-Occupant co-borrower allowed for qualifying, family member only. Great for parents helping their kids buy a home.

•Cash out refinance options up to 95% LTV with no rate and fee premium.

•Stream-Line refinance allows those with an FHA loan to refi to a lower rate w/ no appraisal or requalification when rates drop.

•Bankruptcy lenience, allows for a bankruptcy as recently as 2 years ago. Non FHA programs requires a 4 year waiting period.

• 3.5% Down for up to a 4 unit plex, owner occupies 1 unit (subject to guidelines)

Steve Landis
Certified Mortgage Planner
www.thelandisgroup.com

