

First Time Buyers best to get an FHA Home Loan

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- **First Time Home Buyer & FHA Loans**

If you are a first time home buyer, the time has never been better to explore financing through the FHA loan program. With subprime mortgage loans taking a hit in the market, many first time buyers are left out in the cold about the best loan options for them. FHA Loans may in fact be the answer. While FHA mortgages haven't been as popular in recent years because of the perceived amount of bureaucracy associated with obtaining a loan backed by a government entity such as the HUD, new lending legislation is in the works to help make them more consumer-friendly.

First time home buyers represent a large share of the lending market and they receive a lot of attention. Many do not have established credit histories or a lot of money to put down for a down payment (cause they are usually fresh out of college or still early in their careers). Currently, FHA loans require a 3% down payment to obtain home financing and have different FHA mortgage loan limits in different states. Apply now to obtain more information about the limits and down payment requirements in your area with us here on Mortgage Loan Place.

We will connect all first time home buyers with FHA loan experts particular to your area. They will help explain the different benefits and costs associated with purchasing your first home with an FHA loan. Many people fail to take the time to learn more about their options when financing a home - don't be one of them! The FHA might just be the answer for your FHA Loan.

FHA and HUD Mortgage News

Use the articles below to keep up to date on the latest news regarding HUD the Department of Housing and FHA Loans.

[HUD SECRETARY ANNOUNCES DISASTER ASSISTANCE FOR ILLINOIS FLOOD VICTIMS](#)

WASHINGTON – U.S. Housing and Urban Development Secretary Alphonso Jackson today announced HUD will speed federal disaster assistance to certain flood-ravaged counties in Illinois and provide support to homeowners and low-income renters forced from their homes following severe storms and flooding.

[HUD AWARDS \\$300,000 FOR AFFORDABLE HOUSING AND ECONOMIC DEVELOPMENT IN CEIBA, PUERTO RICO](#)

SAN JUAN, PR – U.S. Housing and Urban Development Deputy Secretary Roy A. Bernardi today presented the “Corporation de Desarrollo Economico de Ceiba” (Ceiba Housing and

Economic Development Corporation) with \$300,000 to stimulate economic development, create jobs and produce more affordable housing. Awarded earlier this week, the grant Bernardi delivered today is part of \$16.8 million in grants provided through HUD's Rural Housing and Economic Development (RHED) Program.

[BERNARDI ANNOUNCES \\$21 MILLION LOAN GUARANTEE TO DEVELOP PONCE CONVENTION CENTER AND PUBLIC AQUARIUM](#)

PONCE, PR - Plans to create a downtown convention district and a new public aquarium are one step closer to reality today with the announcement that the U.S. Department Housing and Urban Development approved a nearly \$21 million loan guarantee to the Municipality of Ponce. The federal loan guarantee will provide the Municipality access to private investment to develop a 92,000 square foot convention center and the new Oceanic Center of the Caribbean.

[HUD DEPUTY SECRETARY ADDRESSES ANNUAL HOUSING SUMMIT](#)

[CAROLINA, PR - U.S. Department of Housing and Urban Development Deputy Secretary Roy A. Bernardi](#) today addressed the 15th annual Housing Summit in Carolina, Puerto Rico and discussed HUD's commitment to affordable housing. The conference, sponsored by the Puerto Rico Bankers Association, the Puerto Rico Department of Housing, the Community Housing Development Organization (CHDO) Association, and the Home Builders Association, brought together 300 participants from the private and public sector.

[HUD DIRECTOR EARNS DISTINGUISHED GOVERNMENT MEDAL FOR CREATING INNOVATIVE DATABASE](#)

WASHINGTON – Nicole Faison, a U.S. Housing and Urban Development director, was awarded the prestigious Service to America Medal last night at a dinner and gala for winners at the Andrew Mellon Auditorium in Washington, D.C.

What is an FHA Mortgage Loan

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Other FHA Home Loan Mortgage Programs

FHA Refinancing Upcoming Changes to FHA Mortgage Loan FHA Loan Homes

The Secrets to Securing an FHA Home Loan

Want to experience the joy of home ownership but need a loan? The Federal Housing Administration has been helping people fulfill their dreams of owning a home since 1934.

The FHA insures your loan so that lenders can offer you better, more affordable rates. Whether you live in a single parent household or a multi-parent household, the FHA can help you purchase a home or remodel the home in which you currently live. FHA programs can even help you make home repairs or energy efficient home improvements. Act now, the FHA can help!

Want more FHA information now? Use one of our loan specialists to learn how FHA financing can benefit you. Get started now with FHA loan financing!

Financing Your FHA Loan

Currently, FHA financing requires a 3% down payment minimum to obtain a home loan, although legislation changes are proposed that would result in a that would eliminate the requirement and raise home loan limits in high cost areas.

With the new hit in the mortgage lending industry if your credit is not great your best move is a FHA Loan. You can still get a great rate with bad credit. If not you could be looking at High 9% interest rate and up if you have the down payment and can even get approved. FHA Loans are the easiest loans to get today at the lowest rates nationwide.

FHA LOANS FHA REFINANCE FHA HOME PURCHASE

FHA Home Loan Guarantee Program

- FHA loans offer a loan low rate guarantee for mortgage companies. If you get a FHA loan to purchase a new home, the FHA is not actually lending money to you, the buyer; the FHA simply guarantees the lender in case you, the borrower, default on your mortgage payments.

- You can pay as little as a 3% of the purchase price of your home for your down payment, and finance your closing costs with your mortgage loan. The FHA can guide you toward programs that require no down payment.
- You can purchase a home in need of repairs and finance the repair costs with the mortgage. This way you can make the necessary repairs immediately without having to come up with the money yourself.
- You can purchase manufactured homes and condominiums with a FHA loan.
- You can finance the cost of energy-efficient repairs with the mortgage.
- Refinance Your Mortgage into a More Reasonable Monthly Payment
- Refinance Your Current Loan to help Avoid Foreclosure.
- Take Cash Out of Your Home's Equity for Home Improvements
- Contact Us for an FHA Refinance Today!
- It is easier to qualify for a FHA loan than it is for a traditional loan from your average lender. Since the FHA does not directly loan you the money, you have to qualify with a lender that funds FHA loans. It is easier to qualify because the FHA guarantees your loan, which means that they promise the lender that if you skip a mortgage payment, go into default, or they are forced to foreclose on the property, that the lender will get their money back. The FHA guarantees a percentage of the loan, which they pay directly to the lender in the case of foreclosure. So, the lender has nothing to lose by extending credit for a mortgage loan to a borrower who chooses an FHA loan.
- You do not have to have perfect credit to refinance with a FHA loan. The FHA requires certain standards order to offer you a loan guarantee, but the lender is still guaranteed their money in case of home foreclosure, so they are more likely to fund the loan even if the borrower's credit is not ideal.
- You can have no down payment or a very low down payment, and still get a mortgage loan. Most traditional lenders require a minimum down payment, which preferably is around 20% of the purchase price of the home. FHA loans only require 3%, and this required portion can be a gift to you. Many lenders don't allow gifted funds to be used for down payments on a mortgage loan, but a FHA loan would allow you to do so. You may get a much lower interest rate on your refinance mortgage. FHA loans can offer much better loan terms than traditional mortgage loans because the loans are guaranteed by the federal government, so there is almost no risk involved. Because of the guarantee, lenders are more secure with the loan, and can offer lower long-term fixed interest rates and fewer points.
- The FHA will stand by you in case of an emergency. Most lenders help you get your mortgage loan, and then leave you on your own. Your mortgage may even be sold to other companies, and you would never deal with your original lender again. The FHA stays with you for the life of your loan, and they can help you if you get in trouble. If for any reason you get to the point of default or foreclosure on your home, you should contact the FHA immediately. The FHA has programs that can help you retain ownership of your home in times of crisis.

These are just some of the many benefits you would receive if you refinance your home with a FHA HOME LOAN. Now keep in mind that because the FHA does allow you to put such a small percentage down on your mortgage loan or take out a lot of cash when you refinance, you are required to carry mortgage insurance on your home until the equity in your property has built up to 20% or more.

A **FHA loan** can allow you to include the costs of your home improvements in your loan. HUD's 203 (k) program allows you to purchase, or refinance, a home that needs improvements and include all repair and improvement costs in the loan.

FHA loans can even help you to make your home more energy-efficient. The FHA recognizes that with a more energy-efficient home, the homeowner can afford to pay a higher mortgage; therefore, the FHA can also include these types of repairs in the original loan also.

If you are considering refinancing your home mortgage loan, you will want to research a FHA refinancing loan. You can get help from the [Department of Housing and Urban Development](#).

WHAT'S AN FHA HOME LOAN?

When it comes time for most people to buy a home, some sort of loan will usually be needed to cover the costs of buying a house as well as the price of the home itself. The median home price in the United States is approximately \$215,000, and since the vast majority of Americans don't have that kind of cash lying around, they borrow money, usually in the form of a mortgage loan. An FHA loan is a mortgage loan that is insured by the U.S. government. Since the government insures the mortgage loan, lenders will be more willing to give out loans with fewer requirements and stipulations. With an FHA loan, the government doesn't actually give you the mortgage loan, a lender does (lenders can be institutions like banks or mortgage brokers). Any money used to pay for the home will come from the lender, not the U.S. government – the government simply insures that loan so that lenders feel safer about lending to certain people. With government insurance, lenders will give out more loans, since they know that if a borrower can't pay the loan, the government will step in and cover it.

The "FHA" in "FHA loan" stands for the Federal Housing Administration, a government agency which is itself a part of the Department of Housing and Urban Development (HUD). FHA was created in 1934 as a direct result of the Great Depression, one of America's worst economic downturns. During the Great Depression, millions of Americans were unable to make payments on their debts, the banking system failed, and millions of homes were foreclosed (a process in which a mortgage lender takes back a house to sell on an open market).

To combat the growing problem of indebtedness and a lack of homeownership during this period, the United States government set up the FHA, which was designed to provide struggling families with loans so that they could purchase a home. The Great Depression ended in the late 1930s, and since then FHA loans have been used basically for the same purpose: to provide low- and moderate-income families with affordable housing. FHA loans are also great for first-time home buyers and those who have credit problems.

So why should anyone get an FHA loan? If you don't qualify for or can't afford a conventional loan (prime or subprime), it is possible that you would qualify for an FHA loan, since FHA loans have:

1. No credit score requirements
2. Lower down payment requirements
3. Low closing costs
4. Property condition standards
5. Lower monthly mortgage insurance
6. Special discounts for certain individuals

FHA loans, like any type of loan, do have their disadvantages. The most significant disadvantage of FHA loans concerns the loan limits. In areas of the country where homes are expensive, you might not be able to find an FHA loan that can cover the total cost of the house. In places like New York and southern California the maximum loan limits of FHA loans are in the \$300,000s, even though the average home prices for these areas is often above \$400,000. This doesn't mean that families in New York and California shouldn't try to obtain an FHA loan, it just means that they may have to find other ways to finance the entire cost of the house. Furthermore, the FHA is currently asking congress for permission to increase their loan limits. If this legislature passes, then the FHA will be able to reach millions more families and this disadvantage will no longer be a problem.

WHO SHOULD GET AN FHA MORTGAGE LOAN?

FHA mortgage loans were initially meant for people affected by the Great Depression. These days, most individuals who get FHA loans have a low- to moderate-income or are first-time home buyers. Additionally, there has been a recent increase in people switching to FHA loans from subprime loans for the safety and reliability associated with the FHA.

FHA loans are great for low- to moderate-income families because of the low down payments, low closing costs, and easy credit qualifications. First-time home buyers are attracted to FHA loans because when somebody is buying their first home they are usually too young to have built up a lot of credit. Because FHA loans have no strict credit requirements, even people with no credit (due to inexperience) can get financing.

All of these individuals might benefit from an FHA loan. However, there is definitely a “market niche” for FHA loans. That is, there is a certain type of person for whom FHA loans are best. This person:

1. Has some credit problems that prevent him or her from getting prime-market mortgage loans.
2. Can handle the FHA 3% down payment. Some borrowers may qualify for the 100% No Money Down FHA Loan program.
3. Wants to purchase a house that costs less than the FHA maximum loan limit.

If you meet these criteria, then an FHA mortgage loan is probably right for you. To further maximize the benefit of an FHA loan, here is what your income, credit, loan amount, and cash reserves should be:

1. **Income:** Your income can be relatively low, but more importantly it should be steady for at least the past 2 years. If not, the FHA might still insure your loan, but proving a steady source of income (which can be from a number of sources) is always beneficial.

2. **Credit:** Most people who get an FHA loan have credit that doesn't meet prime pricing requirements. See "Credit Requirements" below for more information.
3. **Loan Amount:** FHA mortgage loans are most beneficial to people who can purchase a house without going over the FHA home loan limit. These loan limits are different in every county, so head to the official FHA mortgage limits webpage and see what the limit is for your area. Make sure that the price of the house you want to purchase is below this limit. Max is \$417,000 on the New FHA Loan.
4. **Cash Reserves:** It would be best if the borrower had cash reserves that exceeded the 3% down payment that FHA requires. To figure out what your down payment will be, just take the price of the house you want to buy and multiply it by .03. That is, if the price of your desired house is \$100,000 then your down payment would be \$3,000 because $100,000 \times .03 = 3,000$. If after reading this section you no longer think an FHA loan is right for you, then you still have other options for financing your home purchase. Two popular mortgage options are the "interest-only mortgage" and the "option adjustable-rate mortgage." Read the next page for more information on these two types of mortgages, otherwise skip to the section, "FHA Home Mortgage Loan Requirements" to continue learning about FHA home loans.

Interest-Only Mortgages

For many people, when purchasing a home, finances may be limited. There are several options for people in this situation, and one is the interest-only mortgage. With a regular mortgage, the scheduled monthly mortgage payment goes towards repaying the principal (the original size of the loan) as well as the interest (a financial charge for using the lender's money). In an interest-only mortgage, the monthly payment only repays the interest. This option to pay interest only lasts for a particular period of time, and ranges from a few months to a few years.

The benefits of an interest-only mortgage are that your monthly payments will usually be lower than a regular fixed-rate or adjustable-rate mortgage during the interest-only period. However, it is recommended that during this interest-only period, if you can afford to pay more than just interest, you should. That way, the principal amount owed will decrease, and since you are also paying interest, the total loan amount goes down. Additionally, you may be able to afford a larger or more luxurious house with an interest-only mortgage, since the payments will be smaller in the short-term. Another feature that may be available with your interest-only mortgage is that whenever you make an "extra" payment in order to reduce your principal, your next month's payment may be less. This is only available in interest-only mortgages, and not available in all circumstances.

Since interest-only mortgages are riskier to the lender, there are some drawbacks to this type of mortgage. For starters, lenders usually require a higher interest rate for interest-only mortgages. Furthermore, the interest rate quoted may or may not be fixed during the interest-only period. Most importantly, with all interest-only mortgages, the time will come when the interest-only period will end, and borrowers need to plan ahead and realize that their payments will undoubtedly go up at some point. Caution must be taken, therefore, when getting an interest-only loan. Borrowers will need to consider various situations in the future regarding their financial status, and plan accordingly.

FHA MORTGAGE LOAN REQUIREMENTS

If you have made it here, then hopefully you have looked over the general information regarding FHA mortgage loans and have decided that an FHA insured loan is right for you. Before beginning the process of actually obtaining the FHA mortgage loan, it is important to look over what the FHA expects of its borrowers. Financial, credit, and employment requirements may seem daunting at first, but keep in mind that the FHA is usually much more flexible and accommodating than many private lending institutions. We'll go over each type of requirement separately, so take your time and check to see if you qualify. If you don't meet one or two of the requirements, or meet them just barely, feel free to contact FHA and see what they can do for you. Since every situation is different, you may be able to work out a solution so that you can obtain an FHA mortgage loan.

Requirements:

- **Basics** – To get an FHA mortgage loan, you've got to have a valid social security number, be a legal resident of the United States, and be of legal age to sign on a mortgage (this age varies from state to state).
- **Employment** – Ideally, you'll be able to show FHA that you've maintained steady employment for the last three years. This would mostly be to prove that you are capable of making regular mortgage payments without difficulty. However, there are no fixed employment requirements for an FHA mortgage loan.
- **Income** – As with the above category, there are no minimum income requirements for an FHA loan. Rather, you must simply show that you have had continual income for the past three years. What constitutes income? Full-time wages from your employer, part-time pay, overtime pay, bonuses, seasonal pay, pension, child support paid to you, alimony paid to you, even rent paid by family members to you. Government-based sources of income can also be included, such as social security payments, unemployment compensation, military pay, and VA benefits. The FHA wants to see that you have a steady income because it makes them feel safer about insuring the money lent to you – people with a steady income are obviously more likely to make payments on time than people with no steady income. Lastly, the FHA doesn't have maximum income limits, either: people with well-paying jobs or lots of other income can get FHA loans too.

• **Credit** – One of the main advantages FHA loans have over conventional loans are the credit requirements. While conventional loans often demand that the borrower have perfect credit and no past bankruptcies or foreclosures, FHA is less strict.

i. You do not need perfect credit to qualify for an FHA loan as long as there is a good reason for any past credit problems.

ii. If you lost your job, had a job transfer, suffered a serious illness or had to support someone suffering a serious illness, this may be reason enough to excuse your credit history.

iii. There are two real credit requirements for an FHA mortgage loan: in the past two years, you should have no bankruptcies, and in the past three years, you should have no foreclosures (or deed-in-lieu of foreclosures).

iv. Additionally, potential borrowers should make sure that any tax debts (also known as “tax liens”) and other judgments have been paid or otherwise a repayment plan has been set up to begin paying them.

v. It is recommended that you have fewer than two “30 day late payments” in the last two years.

vi. The best way to see if your credit is good enough to obtain an FHA loan is to get “pre-qualified.” Most FHA mortgage lenders offer some sort of pre-qualification service in which they will ask you about your credit history and determine whether or not you’ll be able to get an FHA loan.

vii. Even if your credit is deemed unacceptable by the FHA, you may still be able to get an FHA loan if you meet one or more of these factors:

1. Good ability to maintain savings
2. Capacity to make a large down payment
3. Promise of increased earnings or income
4. Limited use of credit
5. Large cash reserves
6. Using the FHA loan for an energy-efficient residence
7. Some people who’d like to get an FHA loan do not have any credit history at all. This may be because they are too young to have any credit built up, prefer to pay their debts in cash or simply have never borrowed money. These borrowers can also get FHA loans, but must prove their ability to make regular mortgage payments in other ways.

• **Debt to Income Ratio** – This may sound like a complicated concept, but the “debt to income ratio” is easy to understand.

How much of what you make in a month goes towards debts that you owe?

Hypothetically, if you make \$1,000 a month, and you have to pay \$250 a month in debt, then 25% percent of your income is going towards your debt: that is your debt to income ratio ($250 / 1000 = .25 = 25\%$).

ii. FHA won't let borrowers use more than 29% of their monthly income towards paying off housing costs. Additionally, borrowers can't use more than 41% towards other long-term debt (both of those figures apply to loans for existing dwellings, for new construction the figures are 31% and 43%, respectively).

iii. With this in mind, remember that your income will determine how much your monthly mortgage payment to FHA will be – your monthly mortgage payment cannot exceed 29% of your monthly income.

iv. In some cases, you can exceed this FHA debt to income ratio, but in order to do this you must have one of these:

1. Large cash reserves
2. Good credit history
3. The ability to make a large down payment
4. Mortgage terms that are less than the allowed maximums
5. A decrease in monthly housing expenses

• **Down payment** – One of the main things people worry about when buying a home is the down payment (a percentage of the home's total value to be paid in cash upon obtaining the mortgage loan). For many low- and moderate-income families, a large sum of cash is hard to come by. Fortunately, the FHA has one of the smallest down payment requirements among all home loans. The minimum down payment for an FHA loan is just 3% and will never exceed 5%. Borrowers usually use their own cash reserves to pay the down payment, but can also use cash gifts and private savings to pay it as well. In fact, the FHA allows 100% of the down payment to be a gift from friends, family, or other sources (that is, if you know someone particularly generous, they can pay the entire down payment for you). If you plan to repair or improve the house yourself, you can use this manual labor as a percentage of the down payment, too.

HOW TO OBTAIN AN FHA MORTGAGE LOAN

If you've decided that an FHA home loan is right for you and your family, then read on. Getting an FHA mortgage loan may seem like a complicated process, but as long as you follow certain steps in order you'll be financed in no time. Following this easy step-by-step FHA Loan guide to obtaining an FHA loan, but if you ever have any questions about the process, don't hesitate to ask your lender.

Step 1: Preparation

Prior to applying for an FHA loan, there are certain things every individual should do to make sure the process goes smoothly. Since approval for an FHA loan is based primarily on the documentation you can provide, making sure you have all the necessary documents available is very important. Here is a list of the documents you should locate before beginning the FHA loan process:

1. **Tax documents:** You'll need your last two tax returns, W-2's, and schedules if you're not self-employed. If you are self-employed, you'll need three years worth of tax returns as well as your YTD profit & loss statements.

2. **Banking documents:** You'll need your last three complete bank statements for all of your bank accounts as well as any statements from retirement funds, any 401k's, mutual funds, stocks, etc.

3. **Personal documents:** You'll need your social security card and driver's license as well as any of the following if you have them: green card, work permit, divorce papers or alimony papers.

The other important documentation you'll need has to do with your credit. While the FHA doesn't have strict credit requirements and is known for financing people with a poor credit history, the FHA will examine your credit to determine whether or not you'll qualify for a loan. To do this, they'll request you give them your most recent bill statements, your last landlord's contact information, any bankruptcy papers, and any other papers related to your credit.

Additionally, the FHA will check your credit report. You are entitled to one free credit report every year from the “big three” credit reporting agencies and you should make use of that fact. Head to www.annualcreditreport.com to get copies of your credit report and see it before the FHA does. Note: if you want to know your credit score (a measure of your credit expressed as a three digit number – higher is better) you’ll have to pay approximately \$18.00 for it to each of the three companies, Equifax, Experian, and Trans Union.

If after examining your credit report you notice any errors (nearly three quarters of all credit reports contain at least one error, according to the Government Accounting Office), you can contact the credit agency and work to remove the mistake. Sometimes, documents that describe how a family illness, injury, or loss of job contributed to credit problems can be attached to your credit report. Do this before the FHA obtains your credit report.

Step 2: Searching for FHA Lenders

There are a few places you can begin your search for lenders. Locally, the obvious choice is to check the phone book. If you can’t find any listings related specifically to FHA loans, call another bank or lending institution you are familiar with and trust, and ask them if they can recommend anyone for an FHA loan. These days, however, more and more borrowers are locating their lenders on the internet. Searching for terms such as “FHA loan” in a reliable search engine such as Google or Yahoo! will produce thousands of results, so it’s important to find a lender that you can trust. Furthermore, not all lenders can do business in every state, so be sure to find out if your preferred lender can help you finance your home in your state.

Step 3: Contacting the Lenders

When contacting a FHA lender, ask them if they originate FHA loans. If they do, be sure to ask about their interest rates and other fees that you’d be required to pay. Ask them about their loan terms and credit requirements. Ask them if they will do “pre-approvals,” which are necessary when you begin house-hunting. Keep in mind that you do not have to take a loan from a lending institution just because they pre-approved you. Don’t go through a pre-approval process with a lender that you don’t like, however. If their rates are too high or their terms too strict you should just move on to another lender.

Keep track of the various FHA interest rates and terms that you are quoted by the mortgage lenders. This is important for the next step.

Step 4: Shopping Around for Lenders

This step is extremely important. Every lender is different, so be sure to shop around for multiple lenders before making any decisions. Some banks may offer you extremely low interest rates and great contract terms, other might not. Every situation is different when it comes to mortgages, so keep track of the rates you are quoted. Ask around if other people have done business with the lenders you are considering and see what they thought. Keep in mind that lending institutions compete over borrowers because every mortgage that they close means more money for them. Be wary of any lender that wants you to commit to a contract immediately. Furthermore, if a deal sounds too good to be true, it probably is.

Step 5: Choosing a Lender and House-Hunting

Once you've found a trustworthy lender with acceptable interest rates and good mortgage terms, the next thing you need to do is get pre-approved. The lender will ask you for credit information and other details of the financial aspects of your life and the pre-approval process can take anywhere from an hour to a month. How long your pre-approval takes is largely based on how complex your financial situation is.

Usually, a realtor will not let you sign a contract to buy a house until you've been pre-approved. This is why it's important to get pre-approved before house-hunting. Oftentimes, it's not possible to do it any other way. Additionally, if you've been pre-approved prior to house-hunting, then the real estate agent will know your price limit when looking for homes.

Step 6: Completing the Loan Application

At this point, you should be pre-approved by a trustworthy lender with reasonable rates, have a house picked out, and have signed with a realtor for that house. Now you've got to actually complete the loan application for the lender and by proxy the FHA. You'll probably have needed the documents listed in Step 1 for the pre-approval process, but you might also need them now for the FHA to approve you and thus complete the loan application. You may need to pay the lender certain fees when completing the loan application. These fees are different for every lender.

At this point you'll probably also need to pay the down payment and any mortgage insurance. With an FHA loan, the down payment is at least 3% of the home's purchase price, though it may be higher as well. Make sure you have this money (whether it be yours or a gift) ready at this point.

Because you will be putting down as little as 3 to 5 percent for the down payment, you are required to pay mortgage insurance to cover the risk incurred by the lender. An up-front mortgage insurance premium is required and can be financed. The

monthly mortgage insurance payments must be paid each month with the mortgage payment.

Checklist for Obtaining a FHA Mortgage Loan

Do you have all of the necessary documents handy for the FHA loan process?

Have you checked your credit and fixed any mistakes on the credit report?

Searched for lenders in the phone book and on the internet?

Contacted the lenders you are interested in and asked them about their rates and terms?

Kept track of those terms and FHA interest rates for comparison?

Made sure the FHA lenders you are interested in can operate in your state?

Compared all of the FHA lenders you contacted and asked around for further information?

Chosen a trustworthy FHA lender and gotten pre-approved by them?

Gone house hunting within your budget?

Completed the FHA loan application, paid the down payment, and paid any FHA MIP mortgage insurance?

The FHA has a number of programs that are intended to provide large discounts on homes for certain people. These discounts usually involve HUD Homes – houses that are owned by the Department of Housing and Urban Development. When someone gets an FHA loan and can no longer make their monthly payments, the FHA will “foreclose” on the house – they’ll take possession of the property to sell it to the public. These properties are the HUD Homes and they can be very beneficial for people looking to purchase a house:

1. FHA and HUD want to sell these HUD Homes as quickly as possible in order to make back as much money as possible. This can be to the buyer’s advantage.
2. HUD Homes for sale are easily accessible through a number of internet listing sites. Visit www.hud.gov/homes to view a list of these sites, organized by state. Keep in mind that these internet listing sites are not operated by the government – they are run by management companies under contract to HUD. Any real estate broker can make an offer for a HUD Home.
3. Sometimes HUD will use an auction format to sell HUD Homes.

4. Owner-occupants are people that live in the home they purchase. HUD puts HUD Homes up for sale to owner-occupants first. Following that, other people, such as real estate investors, can purchase a HUD Home.

5. People who want to buy a HUD Home must either have cash or qualify for a home loan. One can also use an FHA loan to purchase and finance a HUD Home.

6. HUD Homes are sold as-is – anybody buying a HUD Home should get the home inspected.

7. There are a few extraordinary programs operated by HUD that directly involve HUD Homes. Formerly known as the “Teacher Next Door” and “Officer Next Door” programs, they are now collectively called the “Good Neighbor Next Door” program. In this program, any teacher, law enforcement officer, emergency medical technician or firefighter can purchase a HUD Home located in a “revitalization area” at a 50% discount. That is, if HUD lists a home at \$100,000, then a participant in the Good Neighbor Next Door program will be able to purchase that house for only \$50,000. This deal may seem too good to be true – it’s difficult to get things at the grocery store for 50% off, let alone get a home for 50% off. But the purpose of the Good Neighbor Next Door program is to improve the state of America’s communities, and HUD believes that this huge discount will attract upstanding citizens to areas where they are needed.

In order to be an eligible participant, you must:

1. Be employed full-time
2. Be employed as a teacher, law enforcement officer, firefighter or emergency medical technician
3. Be able to live in the discounted HUD Home for 3 full years
4. Use a real estate broker or agent to buy the discounted HUD Home

If you meet these criteria and can pay in cash or prove that you can get financing, then you can participate in the Good Neighbor Next Door program. Not only can you buy a HUD Home in a revitalization area for 50% off, your down payment is also only \$100. But what is a “revitalization area,” anyway? Revitalization areas are located across the United States and usually have one of the following:

1. Very low income compared to the surrounding metropolitan

area or state

2. Many vacant or foreclosed properties
3. Low homeownership rate
4. Above-average crime rate

HUD sees revitalization areas as places that are ripe for improvement and believe that having teachers and police officers move into the areas will help development. Though “Good Neighbors” must reside in the home for 3 years, after that period of time they can sell the home and keep any profit for themselves.

FHA REFINANCING

Individuals who have obtained an FHA mortgage loan have lives like anyone else. These lives can change in subtle and dramatic ways, both financially and personally. Sometimes these changes, as well as changes in the mortgage loan market, may result in the desire to refinance one’s FHA mortgage loan. A mortgage refinance essentially involves acquiring another mortgage to replace an existing one. There are two main types of FHA refinances, “regular” and “streamline.” Each type has a different purpose and process that borrowers must go through. There are many reasons for getting a regular FHA refinance, including paying off an existing mortgage, dealing with a divorce or property settlement, and utilizing the “cash out” option. The regular refinance can be used to pay off any existing mortgage, whether it is conventional, VA or FHA. Additionally, a “cash-out” refinance can be used when the borrower wishes to borrow against their house and take out a portion of their home’s equity in cash. That cash can then be used to pay off debts or finance any other expenses.

An FHA “streamline” refinance can be used to reduce the principal or interest payments, add or delete individuals from the title, change to a loan with a different term (shorter or longer) or change to a fixed rate or adjustable rate mortgage. In regards to the last example, if a borrower wishes to switch to a loan with a steady payment amount, month after month, then they may want to switch to fixed rate mortgage. Conversely, if the borrower’s fixed rate monthly mortgage payment is too high, they may want to temporarily switch to an adjustable rate mortgage, depending on the state of the mortgage loan market. Another option for a person in this situation would be to refinance to a loan with a longer term, in which the monthly payments would also go down. It should be noted that no cash can be taken out on “streamline” mortgage refinances.

UPCOMING CHANGES TO FHA MORTGAGE LOANS

Brian Montgomery, Assistant Secretary for Housing, testified recently before the House Financial Services Committee that modernizing the Federal Housing Administration is of paramount importance for America's "troubled subprime borrowers." The FHA has been insuring mortgage loans for low and moderate income families since the depths of the Great Depression, but these loans became unpopular with the advent of the subprime market. However, subprime mortgage loans have proven to be extremely risky for borrowers with bad credit or low income, a problem which has resulted in a recent surge of foreclosures. Home foreclosures not only force borrowers out of their place of residence, but also cost the lender an average of \$40,000 and can wreak havoc on real estate investors, lenders, and communities at large.

By approving of the modernization reforms, Montgomery claimed that the "FHA could potentially assist tens of thousands more borrowers who need an exit strategy from their subprime mortgages." Some of the proposed changes include:

- Removal of the mandatory 3% down payment which many low income borrowers cannot afford. The FHA plans to switch to a more flexible down payment option.
- Increasing the limits of FHA mortgage loans. Traditionally, FHA had standard loan limits which were often lower than those of subprime mortgage loans.

In areas of the country where housing costs are relatively high, many individuals looking to purchase a home could not, as the old FHA loan limits were below the median house prices. With these changes, people in states like New York and California will be able to obtain an FHA loan that will have a loan limit high enough for homes in those areas.

- Creating a new risk-based structure. Currently, all borrowers who apply for an FHA loan are subject to a standard premium. In the new structure, the premium would be based on the credit profile of the borrower and would shift up or down based on that borrower's level of risk to the lender.

All of these modifications are part of the Expanding American Homeownership Act which passed the House last year by an overwhelming majority. With this new structure, the FHA would not only be able to reach thousands more borrowers, but it would present “a safer, more affordable financing option than many subprime loans,” according to Montgomery. By modernizing its practices and requirements, the Federal Housing Administration will be able to continue increasing homeownership among low-income Americans, minorities, the homeless, and the elderly.

Though these sweeping changes to FHA policy will give the most aid to first-time home buyers and families without previous mortgages, the FHA will also continue to offer FHA refinancing options for those who are still working on another loan. As previously noted, many low and moderate income families have found themselves unable to make monthly mortgage payments, mainly due to risky and financially unsound loans. As more and more individuals wish to refinance to a safer, more stable loan, the FHA is there to assist. The number of conventional to FHA Loan refinances has almost doubled in the last year, and as long as borrowers meet a few simple requirements, they will qualify for a more reliable FHA refinance.