

FHA Home Loans

FHA, also known as the Federal Housing Administration, operates under the Department of Housing and Urban Development (HUD) and has the primary responsibility for administering the government home loan insurance program. This program allows buyers who might otherwise not qualify for a home loan to obtain one because FHA removes the risk from the lender.

The most popular FHA home loan program nationwide is the 203(b) FHA home loan (see below) that only requires a minimum of 3% from the borrower and permits 100% of their money needed to close to be a gift from a relative, non-profit organization, or government agency.

The main advantage to a FHA home loan is that the credit criteria for a borrower are not as strict as Fannie Mae (Federal National Mortgage Association or FNMA) or Freddie Mac (Federal Home Loan Mortgage Corp. or FHLMC). Someone who may have had a few credit problems should not have a problem obtaining FHA financing. Also, FHA home loans are assumable, allowing a person to take over the mortgage without the additional cost of obtaining a new loan. In addition, the seller must pay for part of the "traditional" closing costs (called non-allowable costs) while a borrower's allowable costs can partially be wrapped into the loan. 100% of the down payment and closing costs can be gifted.

Liberty State Finance LLC offers several notable FHA home loan programs: (NEED YOU TO DETERMINE WHICH PROGRAMS YOU WANT TO HIGHLIGHT)

Pros/Cons

Advantages of FHA Loans

While many people deciding on a loan product rely exclusively on their lenders recommendation, you should understand the basic difference between an FHA loan and a Conventional Loan. The term Conventional Loan includes all loans under the current FNMA and FHLMC lending limits. Some of these may be called Conforming, A paper, sub-prime, Alt A, A Minus, BC (bad credit) and other industry names.

Most people that have heard of FHA loans tend to associate them with purchase money transactions but FHA loans are also available for rate and term refinance loans as well as cash out refinances.

The main advantage of a FHA versus conventional loan is that the credit qualifying criteria for a borrower are not as strict as conventional loan financing and the down payment or Equity requirements are less. In comparing a purchase money FHA loan against a Conforming or A paper loan, the FHA loan will generally have the least amount of money required to close and the lower payment. FHA loans will allow the borrower who has had a few "credit problems" or those without a credit history to buy a home.

An FHA Underwriter will require a reasonable explanation of these derogatory credit marks, but will approach a person's credit history with common sense credit underwriting. Most notably, borrowers with extenuating circumstances surrounding a bankruptcy that was discharged 2 years ago can be approved for maximum financing. Conventional A Paper financing relies heavily upon credit scoring. If your score is below the minimum standard, you will not qualify or you will be placed in a higher rate Sub prime, Alt A or A minus loan product.

If a borrower does have past credit issues, an FHA loan may be significantly cheaper than an alternative loan such as sub prime, ALT A, or A minus. These other programs generally have higher interested rate of require a larger down payment or Equity position. Many of these alternative loan products have pre-payment penalties where as FHA loans do not have such penalties. In fact FHA loans can be easily refinanced under the Streamline program.

Another advantage, FHA is one of the few home mortgage programs that allow a borrower to have their down payment gifted from a family member, a governmental agency, or non-profit organization. This allows home buyers without the necessary money to buy a home today.

Even though FHA charges an annual renewal mortgage insurance premium of 0.5% of the loan amount, this fee is generally half that charged by low down payment Conforming A Paper conventional mortgages (which range from 0.55% up to .96% per year). Sub prime, Alt A and A minus rates range from 0.55% to 4.18%. For a \$100,000 mortgage, FHA would charge approximately \$41.67 per month and a typical low down (3%) conventional mortgage with a renewal premium of 0.78% would charge \$65.00 per month. That's a \$280 savings per year.

FHA CLOSING COSTS and Pre-PaidS financed in your loan by a Seller's Concession

When purchasing a home, you will generally have some closing costs in addition to any down payment. With an FHA loan, closing costs that may be charged to the buyer are those considered "allowable" FHA closing cost per HUD. These are buyer costs that are reasonable and customary as determined by the local FHA office. All other closing costs are considered non-allowable are generally paid by the seller when purchasing a home or the lender when refinancing your current FHA mortgage.

The following tables provide a break down of the FHA closing costs and how they are treated. This list is not inclusive of all fees that you may pay. You should consult First Jersey Mortgage Services and request a copy of the Good Faith Estimate for charges on your transaction. One thing to keep in mind is that if the seller of a property will not pay for the non-allowable FHA closing cost and the Lender has to cover some of these costs, it will generally mean a slightly higher rate or points charges to the buyer.

Allowable in Purchase
Appraisal Fee
Credit Report Fee
Origination Fee (max 1% of loan)
Endorsement Fee (related to title insurance only)
Escrow Fee
Attorney Fee
Recording Fee
Title Insurance
Termite Inspection Fee
Flood Certification Fee

Allowable in a Refinance

- * Beneficiary Statement
- * Payoff of other bills

The aforementioned list of FHA closing costs is not an all-inclusive list. Please contact First Jersey Mortgage for more information regarding FHA closing costs.

FHA DOCUMENTATION

With an FHA loan, you will generally be asked for documentation to support your income, liabilities, and funds to close. This documentation will establish your ability to repay the FHA home loan.

The following is a list of documents that most likely will be required by the lender to process your FHA mortgage. Please note the appropriate transaction type and its requirements.

* Purchase Money Transaction as required by HUD:

- One full month's worth of pay-stubs showing Year to Date earnings
- Last 2 years W-2's (salaried income)
- For Self Employed Borrowers; Last 2 years tax returns with all schedules (commission, dividend, rental income)
- Copies of social security, pension, and/or retirement award letters (if applicable)
- Last two months bank statement for all accounts with all pages
- Current statements for all investment accounts with all pages
- Written explanation for any prior late payments, paid collections or judgments
- Copy of Bankruptcy and discharge paperwork (if applicable)
- Divorce decree and any settlement paperwork (if applicable)
- Copy of your Drivers License and Social Security Cards
- Name, Address and phone number of your Landlord for the past 12 months
- Copy of your Sales Contract with Listing and Selling Agent phone Numbers
- Clear Termite Report
- Well and Septic Certifications when city water and sewer is unavailable

* Refinances including Non FHA loans to FHA loans, Cash Out Loans and certain other transactions:

- One full month's worth of paystubs showing Year to Date earnings
- Last 2 years W-2's (salaried income)
- For Self Employed Borrowers; Last 2 years tax returns with all schedules (commission, dividend, rental income)
- Copies of social security, pension, and/or retirement award letters (if applicable)
- Last two months bank statement for all accounts with all pages
- Current statements for all investment accounts with all pages
- Written explanation for any prior late payments, paid collections or judgments
- Copy of Bankruptcy and discharge paperwork (if applicable)
- Divorce decree and any settlement paperwork (if applicable)
- Copy of your Drivers License and Social Security Cards
- Copy of you current Mortgage coupons or statements
- Clear Termite Report
- Copy of your Homeowners insurance
- Copy of your Survey (only applies in survey states)

For FHA Streamline Refinances the following documentation may be required:

- Copy of your current Note
- Copy of the First Two pages of your mortgage or Deed of Trust
- Copy of your Drivers License and Social Security Card
- Copy of your Homeowners insurance
- Copy of your Survey (only applies in survey states)
- Copy of you current Mortgage coupons or statements

Once receiving your documentation First Jersey Mortgage Services will handle acquiring other documentation such as title reports, credit reports and appraisals if required. It is typical that the borrower pays for the cost of the credit report and appraisal.

FHA FAQ

Is FHA financing complicated?

FHA home loans are easier than conventional financing.

Who qualifies for a FHA home loan?

The program is open to virtually everyone. There are a few restrictions placed upon credit and residency that may preclude someone from obtaining a FHA home loan.

Is it true that the down payment can be gifted?

Yes. Current FHA guidelines permit a relative, a governmental agency, or approved non-profit organization to gift the borrower's down payment. A gift, according to HUD, is just that--a gift. HUD does not permit the borrower to repay the gift as a stipulation of giving the gift.

What is the minimum amount of money I need to buy a home with a FHA mortgage?

The Federal Housing Act requires the minimum cash investment to be 3 percent of the sales price. Even though the actual down payment may be less than 3 percent, the balance would go towards the borrower's closing costs. In the event that there are no closing costs, the down payment would be increased to 3 percent.

I am in a Chapter 13 bankruptcy. Can I get a FHA loan?

A Chapter 13 bankruptcy does not automatically prohibit a borrower from obtaining a FHA loan. Ideally, a minimum of 12 months of repayment with a Chapter 13 (the borrower must also seek permission of the courts to allow this). If a borrower has suffered through extenuating circumstances (such as surviving cancer but had to declare bankruptcy because the medical bills), special exceptions can sometimes be made.

What is the FHA (Federal Housing Administration)?

The Federal Housing Administration, generally known as "FHA", provides mortgage insurance on loans made by FHA-approved lenders throughout the United States and its territories. FHA insures mortgages on single family and multifamily homes including manufactured homes and hospitals. It is the largest insurer of mortgages in the world, insuring nearly 33 million properties since its inception in 1934.

What is FHA Mortgage Insurance?

FHA mortgage insurance provides lenders with protection against losses as the result of homeowners defaulting on their mortgage loans. The lenders bear less risk because FHA will pay a claim to the lender in the event of a homeowner's default. Loans must meet certain requirements established by FHA to qualify for insurance.

Why does FHA Mortgage Insurance exist?

Unlike conventional loans that adhere to strict underwriting guidelines, FHA-insured loans require very little cash investment to close a loan. There is more flexibility in calculating household income and payment ratios. The cost of the mortgage insurance is passed along to the homeowner and typically is included in the monthly payment. In most cases, the insurance cost to the homeowner will drop off after five years or when the remaining balance on the loan is 78 percent of the value of the property -whichever is longer.

How is FHA funded?

FHA is the only government agency that operates entirely from its self-generated income and costs the taxpayers nothing. The proceeds from the mortgage insurance paid by the homeowners are captured in an account that is used to operate the program entirely. FHA provides a huge economic stimulation to the country in the form of home and community development, which trickles down to local communities in the form of jobs, building suppliers, tax bases, schools, and other forms of revenue.

The History of FHA

Congress created the Federal Housing Administration (FHA) in 1934. The FHA became a part of the Department of Housing and Urban Development's (HUD) Office of Housing in 1965.

When the FHA was created, the housing industry was flat on its back:

- Two million construction workers had lost their jobs.
- Terms were difficult to meet for homebuyers seeking mortgages.
- Mortgage loan terms were limited to 50 percent of the property's market value, with a repayment schedule spread over three to five years and ending with a balloon payment.
- America was primarily a nation of renters. Only four in 10 households owned homes.

During the 1940s, FHA programs helped finance military housing and homes for returning veterans and their families after the war.

In the 1950s, 1960s and 1970s, the FHA helped to spark the production of millions of units of privately-owned apartments for elderly, handicapped and lower income Americans. When soaring inflation and energy costs threatened the survival of thousands of private apartment buildings in the 1970s, FHA's emergency financing kept cash-strapped properties afloat.

The FHA moved in to steady falling home prices and made it possible for potential homebuyers to get the financing they needed when recession prompted private mortgage insurers to pull out of oil producing states in the 1980s.

By 2001, the nation's homeownership rate had soared to an all time high of 68.1 percent as of the third quarter that year.

The FHA and HUD have insured almost 30 million home mortgages and 38,000 multifamily project mortgages representing 4.1 million apartments, since 1934.

In the more than 60 years since the FHA was created, much has changed and Americans are now arguably the best housed people in the world. HUD has helped greatly with that success.

What is the most popular FHA loan program?

The most popular FHA home loan program for a first time home buyer is by far is the 203(b). This is your standard fixed rate loan for 1-4 family owner occupied houses and only requires a minimum of 3% from the borrower. This loan also permits 100% of their money needed to close can be financed in the loan with a Seller's Concession, a gift from a relative, non-profit organization or government agency.

What are the advantages of an FHA home loan?

The main advantage to a FHA home loan is that the credit criteria for a first time borrower are not as strict as Conventional Loans sold to Fannie Mae (FNMA) or Freddie Mac (FHLMC). Someone who may have had a few credit problems or no traditional credit should not have a problem obtaining FHA financing.

In addition borrower's allowable costs can be wrapped into the loan.

The monthly mortgage insurance premium is cheaper for an FHA loan verses a conventional loan with 3% down.

FHA loans may require less income to qualify as they will exceed the Conventional debt ratios of 28/36% as their standard is 29/41%.

Are there any disadvantages to FHA loans?

Some contend that the 1.50% FHA upfront mortgage insurance premium (MIP) is a disadvantage. However this amount makes just a very small increase in the borrower's month payment and is partially refundable when the loan is paid off in the first 3 years. FHA does not make home loans. They insure the loans that we can assist you in getting.

Are FHA loans for first time homebuyers only?

Many people make the mistake and assume that FHA loans are only available for first time home buyers. This is not true. FHA loans are available to anyone, whether it is the first or fifth home and can be used to purchase a home or refinance a home. If refinancing a home the current loan DOES NOT have to be an FHA loan.

You can use FHA home loans as many times as you desire when buying a home or doing a mortgage refinance. The only guideline is that you cannot have more than one outstanding FHA mortgage loan with a loan to value of higher than 75%. You can own rental property and purchase your primary residence using FHA mortgage financing.

Are FHA loans only for home purchases?

Many people make the mistake that FHA loans are solely for first time buyers to purchase a home. While this might be one of the more popular transactions, FHA loans are available to anyone for both purchases or refinance transactions. FHA does not have any income restrictions or location restrictions. They do however have maximum mortgage limits that vary by state and county.

There are certain programs that are sponsored by city, county and state government programs that piggyback on top of FHA loan programs that offer below market or subsidized payments that have income or location restrictions.

FHA loan financing is available up to 97.75% of the purchase price for one to four family owner occupied properties.

Borrowers who currently have a FHA loan may choose to refinance using the FHA Streamline Refinance program.

Borrowers who have other types of loans may refinance up to 97% of the appraised value if they are only paying off their existing mortgage or up to 85% of the appraised value if they are paying off debt or taking cash out of the transaction.

Does FHA use a FICO credit score for loan qualifying?

FHA programs that do require a FICO credit score with borrowers who have established mainstream credit. Those who have not established credit that is submitted to the Credit Bureaus and thereby have no scores may have their loans manually underwritten whereby common sense is used.

Can I buy a home with no down payment and get 100% financing using a FHA loan?

Yes. Using a FHA insured real estate first mortgage in combination with a Grant or Gift from a relative, you are able to buy a home with no money down.

How long after a bankruptcy can I use a FHA loans for buying a home or mortgage refinance?

You may buy a home using FHA loans 24 months after the date of discharge for a bankruptcy, assuming that you have maintained perfect credit since the discharge of the bankruptcy.

How long after a Foreclosure can I use a FHA mortgage loan for buying a home or a refinance mortgage?

FHA loans may be used for buying a home 24 months after the final date of foreclosure assuming that your credit since the foreclosure has been perfect.

What the most common FHA loans?

There are several notable FHA home loan programs available as listed below.

Standard fixed rate (FHA 203b)

Rehab Loan (FHA 203k)

Condominium Loans (FHA 234c)

Can I buy a 4 Unit Home with FHA loan financing?

Yes, you may use a FHA mortgage for buying 1,2,3, or 4 unit home assuming that the FHA mortgage amount does not exceed the maximum FHA loan limits for the County where the property is located.

Can I streamline refinance my FHA loan at any time?

Yes, you can streamline refinance to lower your monthly payments, shorten the term or convert the loan to a fixed rate mortgage.

Pre-qualify

FHA loans are the easiest real estate mortgage loans.

The FHA guidelines are the most flexible of all mortgage loans that require less than 3% down payment.

These are some of the most basics for a FHA loan:

- 3.0% Down payment is provided by Grant, Gift from relative or won seasoned funds.
- Two years of steady employment, preferably in same line of work.
- Last two years income, preferably the same or increasing.
- Credit report should typically have no late payments in last two years.
- 12 months of perfect rental history with canceled checks or Verification by management co.
- Any bankruptcy must be at least two years old, with good credit re-established.
- Any foreclosure must be at least two years old, with good credit re-established
- Your new mortgage payment should be no more than 29% of your gross income

If you fit the above criteria, you probably qualify for a FHA mortgage loan.

Pre-qualifying gives you insight into your borrowing power.

Pre-qualifying gives you an estimate of what you are able to afford based upon the information you provided. You now understand how much of a mortgage payment you can afford with regards to your gross monthly income.

To pre-qualify now, contact Liberty State Finance LLC 888 408 HOME