FHA Financing

FHA is by far the most popular mortgage program in the United States for borrowers with more limited resources who need more liberal loan parameters. It is not restricted to first time buyers, there are no income limitations, you may own other properties and this is NOT a subsidized mortgage. It is the grand daddy of 30 year, fixed rate, low down payment insured mortgages.

Down Payment - Loan Amount

The FHA required down payment is based upon sales price. If the sales price is at or above $50,000, the down payment is 2.25%. If below $50,000, the down payment is 1.25%. The maximum loan, excluding financed up front MIP in our areas is $121,296.

Minimum Investment

The minimum investment required on the loan is 3% of the sales price. The minimum investment must be made in the areas of down payment and closing costs (prepaids).

MIP and UFMIP

FHA requires the borrower to pay an annual mortgage insurance premium (MIP) of .50% of the principal balance per year. Collected monthly with the principal and interest, it declines as the balance is amortized. FHA requires annual premium to be collected: a) with minimum down payment, for the life of the loan, b) with 5% down, 12 years, c) with 10% or more down, 7 years. Additionally there is an Up Front MIP (UFMIP), paid in a lump sum at closing. (Properties approved by FHA as condominiums are exempt). This amount is 1.50% for loans that close after January 1, 2001. Typically the borrower increases the mortgage amount to include the UFMIP.

WHAT EVERY SELLER SHOULD KNOW ABOUT SELLING A HOME FHA (OR VA)

When selling a home priced at $124,000 or greater in our area, by rejecting FHA or VA financing you are effectively reducing your potential buying market by 50%. Most people reject the idea of FHA or VA because they are concerned with the appraisal. FHA appraisals are very similar to those on conventional loan purchases.

HISTORY

FHA (Federal Housing Administration) was created as part of The National Housing Act of 1934. This law was revolutionary in scope, addressing for the first time the basic housing needs of the common citizen.

It had been normal for lenders to require 50% down payment, providing a loan which was interest only, ballooning in 2-5 years. FHA introduced the concept of 'amortization' over a 30 year term and reduced the required investment to 3%. This low down payment was made possible through the concept of mortgage insurance.

The loans are pooled with other federally insured (FmHA-RD) and guaranteed (VA) loans and sold on the open market, usually in the form of GNMA Mortgage-backed Securities.

The Housing Act addresses many types of loans. Those discussed here have no limitations related to minimum/maximum income or prior home-ownership, nor do they incorporate government payment subsidies.

FHA loans are, by definition, insured, requiring payment of a mortgage insurance premium regardless of down payment amount or loan to value. FHA financing is the most popular mortgage program in the United States where the borrower wants to put minimum down payment, within the context of local FHA loan limits. This loan program offers tremendous flexibility.

MORTGAGE INSURANCE PREMIUM

MIP and UFMIP

FHA loans are insured by the full faith and credit of the United States Government. FHA requires the borrower to pay an annual mortgage insurance premium (MIP) of .50% of the principal balance per year. Collected monthly with the principal and interest, it declines as the balance is amortized. FHA requires annual premium to be collected: a) with minimum down payment, for the life of the loan, b) with 5% down, 12 years, c) with 10% or more down, 7 years.

In 1983 President Reagan initiated an additional premium, known as Up Front MIP (UFMIP), paid in a lump sum at closing. While properties approved by FHA as condominiums are exempt, condominiums approved as PUDs must pay it. The premium currently equals 2.25% of the loan amount and is due at closing. THis amount is being reduced to 1.50% for loans that close after January 1, 2001. Typically the borrower increases the mortgage amount to include the UFMIP.

When a loan is paid off within the first 7 years under normal (non-default) circumstances, a portion of the UFMIP is refunded to the current mortgagor. The amount of this rebate declines by 1/7th each year, i.e the refund at the end of year 5 would be 2/7ths of the original amount.

MINIMUM INVESTMENT

FHA regulations require the borrower to invest 3% of the sales price. to include origination fee, credit report, title insurance, flood certifications, survey, appraisal, recording fees, state taxes, well/septic/termite inspections and up to $250 for a home inspection. The seller may pay the remainder of the costs, if the contract calls for it. The seller is limited to paying 6% of the sales price toward settlement charges.

Those cost of repairs required by the appraisal and paid for by the buyer, such as a foundation for a mobile home, or a new roof, etc., can be added to the acquisition cost and thereby financed, so long as the cost of repairs, when added to the price, are supported by the appraisal.