



09/28/2006

The FHA Mortgage Loan Basics

Have you ever worried about being able to buy a home because of your income or low credit score? An FHA loan may be your ticket to homeownership.

The Federal Housing Administration (FHA) is a government corporation that was created back in 1934 to help stabilize the housing market during the Great Depression. The goal was to set a standard for housing conditions and to create a financing system that would help buyers by insuring loans for them. Today FHA programs provide an affordable way for lower-income buyers to get into homes. This agency has helped to raise the number of homeowners in the nation. In fact, homeowners make up 67% of the nation's population today, a record high by historical measures.

There are now loans known as FHA loans. If you meet certain requirements, you can receive one of these loans that will allow lenders to overlook your income potential or bad credit. FHA borrowers can have higher debt-to-income ratios than they could with conventional loans. Even those who have had recent bankruptcies can get home financing through this program. This is because with these loans, the government will insure the loan to lenders, making you a much less risky borrower. The lower risk you are to a lender, the better interest rates and mortgage terms you'll be able to get.

FHA loans are very common for first-time home buyers as many young borrowers have no collateral or credit to insure their first home loan. You can get an FHA loan to pay for later mortgages, but you can only have one FHA loan at a time.

Of course you do have to qualify by meeting certain conditions. These include being able to contribute a down payment between 3-5% of the home value. It is possible to get down payment assistance from non-profit organizations if you don't have enough money to meet the requirement. Borrowers are also required to show proof that they have the necessary income to make monthly mortgage payments. Another requirement is that your contemplated home price falls under the limit for your country set by the FHA. Also, FHA borrowers must pay an insurance premium on their loan upfront that usually amounts to about 1.5% of the loan total. Thereafter, borrowers will pay 0.5% of the loan amount monthly as a form of insurance for the government, a higher percentage than many conventional loan borrowers will pay.

If you can afford to make a sizable down payment, if you have good credit, or if you are looking for a more expensive home, an FHA mortgage is probably not the option for you. If you need more help to buy a home though, look into applying for an FHA loan to make owning a home a reality.