



FHA Home Loans 101

An Easy Reference Guide

Updated for loans on or after May 1, 2023



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Congratulations on Starting Your Journey to Home Ownership

This guide offers a quick look at vital information you need in the process of buying a home utilizing the FHA home loan program. You'll learn about:

- Uses for an FHA home loan
- How to apply for an FHA home loan (*employment and residence histories, plus other important documentation*)
- Down payments and FHA mortgage insurance (The Upfront Mortgage Insurance Premium, FHA Annual Mortgage Insurance, Monthly MIP Cancellation)
- Credit scores and your debt-to-income ratio
- FHA loan limits
- Closing costs
- Credit issues

FHA mortgages offer a wide range of benefits and consumer protection that conventional loans may lack. Some of the most attractive things about an FHA mortgage are the low-down payment and more lenient credit requirements. FHA loans are, simply put, easier to qualify for than conventional mortgages.

FHA loans are insured by the Federal Housing Administration. FHA does not lend money or issue credit, so the first requirement of the FHA loan program is to apply for the FHA mortgage through a participating licensed FHA lender.

When you apply for an FHA loan to purchase a new home, you're required to submit detailed information on your existing credit, employment history, and current income.

FHA lenders evaluate this information based on something called "the four C's"

- Credit history
- Capacity to repay
- Cash assets available to close the mortgage, and
- Collateral

According to the FHA, the lender must evaluate all FHA loan applications by:

- Considering the type of income the borrower needs to qualify
- Analyzing the borrower's liabilities to determine creditworthiness,
- Reviewing debt-to-income ratios and compensating factors.

This FHA reference guide includes plenty of information you'll need to get started on the road to becoming a homeowner with an FHA insured mortgage including what's needed during the application process, FHA loan limits, approved uses for an FHA home loan, credit issues, and more.

This guide is intended to give you quick answers to basic questions about the FHA home loan program. Are you ready to buy a home with an FHA home loan? Ask yourself the following questions:

Do I have a steady source of income?

Have I been employed on a regular basis for the last two years or more?

Do I have a good record of paying bills?

Do I have any outstanding long-term debts?

Do I have the ability to pay a mortgage every month, plus other expenses?

Once you have read this guide, you can get started on your journey to home ownership with an FHA mortgage by getting pre-qualified for an FHA loan through a licensed mortgage lender located at www.fha.com.

Uses for an FHA Home Loan

FHA loans for single-family homes can be used to purchase suburban homes, condos, multi-unit properties (subject to certain rules) and other eligible properties. Borrowers are permitted to use an FHA loan to buy properties with a business or non-residential space as long as that space remains subordinate to the "residential nature of the property" according to FHA loan rules and does not take up more than 25% of the total floor space of the home.

But that's not all you can use an FHA home loan to do. Buyers can also apply for FHA loans to simultaneously purchase and remodel or rehab a property, such as a fixer-upper home. FHA loans are also available to refinance from conventional mortgages to FHA loans, and to refinance existing FHA loans. For qualified borrowers aged 62 and older, there is an FHA Home Equity Conversion Mortgage which lets you borrow against the equity built up in the home.

How to Apply for an FHA Loan

There are two basic ways to apply for an FHA home loan. One is to find the home you want to buy, make an offer, and apply for a loan. Another way—one recommended by many personal finance experts—is to get pre-approved for a loan amount before committing to a particular home.

Either way, you'll need to be prepared for an FHA home loan application with the following information:

- Social Security numbers
- Checking and savings account information (including account numbers)
- Information on all open lines of credit including credit cards, student loans, auto loans, etc.
- Complete information on any real estate you currently own
- Approximate value of your personal property
- Gross monthly income amounts for all current employment
- Your addresses for the past two years
- The name and addresses of your employers for the last two years

You'll also be required to supply the following paperwork:

- Tax returns for the past two years
- Current pay stubs or other paperwork verifying your current income
- Income statement and business balance sheet (these are required for self-employed borrowers only)

When pre-qualifying for an FHA home loan, you'll be asked to specify a zip code, approximate value of the property and time range when you wish to purchase. It's a good idea to set a budget and decide on an FHA loan amount early in the process so you can fill out a pre-qualification form online with ease.

Whether you're filling out FHA loan application paperwork or trying to pre-qualify, the application process can be lengthy. Don't expect to have the forms completed online or on paper quickly—it's best to set aside some time to apply when you won't feel rushed to finish the application process.

You'll need a good credit rating to qualify for an FHA home loan. While the FHA has set minimum credit scores, most secondary market investors have placed minimum credit scores on FHA loans at 620. Your first step in the FHA loan process should be requesting a copy of your credit report for review. You should know your credit score, the reasons for your score, and how your credit report will affect your loan application.

FHA loan experts recommend obtaining, reviewing and examining your credit report. You can obtain a complimentary credit score by reviewing the third party offer on www.fha.com. This can help you learn how to maximize your credit score before filling out loan paperwork. Be sure to go over and calculate your debt-to-income ratio, which is crucial in the loan application process. Once you've examined your credit and taken any recommended actions, the next step is to pre-qualify for a specific loan amount by filing out the form on the FHA.com website.

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Down Payments and FHA Mortgage Insurance

All FHA home loans require a down payment. Those eligible for maximum financing must provide at least 3.5% of the price of the home as a down payment.

Those who qualify for an LTV of 90% will need a 10% down payment or higher, depending on the terms of the loan agreement.

For most FHA home loans, the borrower must pay:

- An Up-Front Mortgage Insurance Premium or UFMIP
- An annual insurance premium, collected in monthly installments.
- The FHA official site states the monthly premium varies by the type of FHA home loan. (New purchase home loans may have different requirements than refinancing loans, etc.) The premium is based on the outstanding principal balance.

Mortgage Insurance is a policy that protects lenders against losses that result from defaults on home mortgages. FHA requirements include mortgage insurance primarily for borrowers making a down payment of less than 20 percent.

Current Annual MIP on certain Streamline FHA Refinances

SF forward streamline refinance transactions that are refinancing FHA loans endorsed on or before May 31, 2009, the Annual MIP will be 55 bps, regardless of the base loan amount and takes effect on or after June 11th, 2012.

Current Annual MIP Premium other than Certain Streamline FHA Refinances *Revision to the Annual MIP Premium – as per Mortgagee Letter 2023-05

This Mortgagee Letter reduces the Annual Mortgage Insurance Premiums as well as amending the base loan amount threshold of \$726,200 for all case numbers assigned on or after March 20, 2023, for the following:

MORTGAGE TERMS OF MORE THAN 15 YEARS

1. On loan amounts less than or equal to \$726,200 with a Loan to Value of less than or equal to 90% and with a term of more than 15 years. The annual MIP for these loans will be reduced to 50 basis points.
2. On loan amounts less than or equal to \$726,200 with a Loan to Value of greater than 90%, but less than or equal to 95% and with a term more than 15 years. The annual MIP for these loans will be reduced to 50 basis points.

3. On loan amounts less than or equal to \$726,200 with a Loan to Value of greater than 95%, and with a term more than 15 years. The annual MIP for these loans will be reduced to 55 basis points.
4. On loan amounts greater than \$726,200 with a Loan to Value of less than or equal to 90% and with a term more than 15 years. The annual MIP for these loans will be reduced to 70 basis points.
5. On loan amounts greater than \$726,200 with a Loan to Value of greater than 90%, but less than or equal to 95% and with a term of more than 15 years. The annual MIP for these loans will be reduced to 70 basis points.
6. On loan amounts greater than \$726,200 with a Loan to Value of greater than 95%, and with a term more than 15 years. The annual MIP for these loans will be reduced to 75 basis points.

MORTGAGE TERMS OF LESS THAN OR EQUAL TO 15 YEARS

1. On loan amounts less than or equal to \$726,200 with a Loan to Value of less than or equal to 90% and with a term less than or equal to 15 years. The annual MIP for these loans will be reduced to 15 basis points.
2. On loan amounts less than or equal to \$726,200 with a Loan to Value greater than 90% and with a term less than or equal to 15 years. The annual MIP for these loans will be reduced to 40 basis points.
3. On loan amounts greater than \$726,200 with a Loan to Value of less than or equal to 78% and with a term less than or equal to 15 years. The annual MIP for these loans will be reduced to 15 basis points.
4. On loan amounts greater than \$726,200 with a Loan to Value of greater than 78%, but less than or equal to 90% and with a term less than or equal to 15 years. The annual MIP for these loans will be reduced to 40 basis points.
5. On loan amounts greater than \$726,200 with a Loan to Value of greater than 90%, and with a term less than or equal to 15 years. The annual MIP for these loans will be reduced to 65 basis points.

Term > 15 Years

Base Loan Amount	LTV	Effective	Annual MIP
<= \$726,200	<=90%	20-March-23	50 bps
<= \$726,200	>90%, <=95%	20-March-23	50 bps
<= \$726,200	>95%	20-March-23	55 bps
Above \$726,200	<=90%	20-March-23	70 bps
Above \$726,200	>90%, <=95%	20-March-23	70 bps
Above \$726,200	>95%	20-March-23	75 bps

Term <= 15 Years With LTV Above 78%

Base Loan Amount	LTV	Effective	Annual MIP
<= \$726,200	<=90%	20-March-23	15 bps
<= \$726,200	>90%	20-March-23	40 bps
Above \$726,200	<=78%	20-March-23	15 bps
Above \$726,200	>78%, <=90%	20-March-23	40 bps
Above \$726,200	>90%	20-March-23	65 bps

How long will you pay for the MIP? For loans with FHA case numbers assigned on or after June 3, 2013, FHA will collect the annual MIP, which is the time on which you will pay for FHA Mortgage Insurance Premiums on your FHA loan. They are as follows:

Term	LTV (%)	Previous	New
<= 15 years	<= 78%	No Annual MIP	11 years
<= 15 years	>78%, <=90%	Cancelled at 78% LTV	11 years
<= 15 years	> 90%	Cancelled at 78% LTV	Loan Term
> 15 years	>= 78%	5 years	11 years
> 15 years	>78%, <=90%	Cancelled at 78% LTV & 5 yrs	11 years
> 15 years	> 90%	Cancelled at 78% LTV & 5 yrs	Loan Term

Credit Scores and Debt-to-Income Ratio

Credit scores are an important factor. According to the FHA, the following credit score information applies:

- Credit scores at or above 580: eligible for maximum financing
- Credit scores between 500 & 579: limited to a maximum LTV of 90%.
- Credit scores less than 500: *not* eligible for FHA-insured financing.

When it comes to credit, the above data is ***the FHA minimum***. The FHA cannot force lenders to issue credit at this minimum - your lender may have higher credit requirements. Many financial institutions look for a baseline credit score of 620 or better. Having little or no credit history is not necessarily a barrier to an FHA home loan. Ask your lender about non-traditional credit qualifying issues if your credit history is minimal.

The FHA requires borrowers to have stable, dependable income that is verifiable by the lender. The borrower's current debt is analyzed and compared to the amount of income, and a debt-to-income ratio is calculated. Borrowers generally must have a debt-to-income ratio including the proposed mortgage payment of no greater than 43%-which means the amount of total monthly debt cannot consume more than 43% of the borrower's total monthly income.

Also, the amount of a proposed mortgage payment alone that includes principal, interest, taxes and insurance cannot be more than 31% of the borrower's monthly income.

It's important to note that FHA requirements may be more forgiving than those of an individual lender—discuss these ratios with your loan officer in advance to know what is considered acceptable.

FHA loan rules do provide exceptions for borrowers who may exceed these limits when there are "compensating factors." Ask your loan officer about these compensating factors if you have concerns and be sure you know what the lender's policies are regarding such factors and whether they apply to you.

FHA Loan Limits

The FHA does not set a single maximum loan amount for FHA-insured home loans. The amount of your FHA home loan depends on a combination of factors including the local market in your county or zip code, the appraised value of the property, and the amount you may qualify to borrow based on your credit and payment history.

The FHA official site features a list of loan limits by county. This list shows the absolute maximum per county an FHA borrower could qualify to get under ideal circumstances.

You can find this list, which is searchable by state and county, at <https://entp.hud.gov/idapp/html/hicostlook.cfm> or you can ask your lender for the loan limits that might apply to you based on where you wish to purchase your home.

FHA loan limits don't stay the same from year to year. Changes in the market or federal law may alter loan limits. Ask your lender what the current limits are and how they might change in the new year if you don't purchase a home before then.

Again, the FHA loan limit is not necessarily the amount you will qualify to borrow—the value of the property and your credit qualifications help determine the loan amount. Your lender can help you learn more about FHA loan limits in your specific case.

Closing Costs

When it's time to close the loan, borrowers should know the costs associated with their home purchase. The Good Faith Estimate is provided to you within three days of your loan application and breaks down your approximate costs based on the loan information provided, current rates and fees and other data.

If you're a first-time borrower, you may not be familiar with some, or all of the closing costs associated with an FHA home loan. Those costs can include but may not be limited to:

- Attorney fees
- Documentation preparation fees
- Escrow fees
- Property taxes
- Interest (paid from date of closing to 30 days before your first mortgage payment)
- Loan Origination fee
- Recording fees
- Survey fee
- First Mortgage Insurance Premium (where applicable)
- Title Insurance
- Loan discount points
- First payment to escrow account for future real estate taxes and insurance
- Paid receipt for homeowner's insurance policy (and fire and flood insurance if applicable)

One of the most important things to know about closing cost is the fact that FHA rules keep the payment of closing costs separate from the down payment. When you pay closing costs, you are not putting money down on the home—the down payment is a separate cost.

Some mistakenly believe their closing costs are considered part of the required down payment—this is not true.

Credit Issues

Having less-than-perfect credit is not a barrier to an FHA home loan. In general, the FHA wants to see a history of reliable income and steady payments over the last 12-24 months.

It's a very good idea to pull copies of your credit reports from the three major credit reporting agencies (Equifax, Experian, and TransUnion). If you have errors, identity theft issues or other problems with your credit report, you'll need time to deal with them properly before applying for an FHA home loan. Personal finance experts recommend doing this at least one year before applying for an FHA home loan.

When it comes to issues like personal bankruptcy, foreclosure and other concerns, the FHA has rules governing when you can apply or re-apply for an FHA mortgage.

In general, at least two years must pass after bankruptcy, foreclosure or other actions. In some cases FHA rules allow for some flexibility in these areas if the borrower meets certain requirements. Lender policies in this area may be stricter than the FHA minimums. Your lender may be willing to work with qualified borrowers once FHA minimum requirements are met, depending on circumstance.

For example, according to the FHA rules, "a person in Chapter 13 bankruptcy can purchase a home subject to a FHA-insured mortgage. Requirements are the applicant (1) must have completed one year of payments as required while under Chapter 13 and (2) must obtain a letter from the Trustee of the court, stating the dollar amount the applicant can borrow."

Situations like these are handled on a case-by-case basis. Don't assume you're unable to apply—always consult with your lender first to see if you qualify once FHA minimum standards in this area are met.

To get started with an FHA home loan, go to www.fha.com to find a licensed lender and start your journey to home ownership.