

# THE REAL ESTATE PAGE

March 2011

## FHA Offers Alternatives For Average Americans

**W**e have undergone a credit crisis in America. This is a crisis that has taken away many home financing alternatives. However, Americans are not without home financing alternatives. It is time to take a good look at an old standard—FHA financing.

For years, FHA was the standard for first time buyers, immigrants and those with credit issues. During the real estate and subprime boom, FHA financing shrunk from over 25% of the loans in America to well under 5% of the market. But now the government has moved to make FHA more attractive. Congress passed a bill to raise the FHA loan limits in many parts of the country.

Even without these modifications, here are some of the advantages of FHA...

*A Low Downpayment.* Generally the downpayment on an FHA mortgage is very affordable as compared to conventional financing. The down-payment required is less than 5.0%. A total of 3.5% cash is required from the borrower's own funds to be invested in the total transaction, inclusive of closing costs.

*A Liberal Gift Policy.* FHA borrowers virtually do not have to come to the transaction with any liquid assets in savings. All money may be provided by gift from a relative. Relatively all conventional lending requires that a certain amount of the borrower's funds belong to the borrower through savings amassed some time before the transaction takes place. FHA also requires no cash reserves left in the bank after settlement. Keep in mind that prudent underwriting standards may very well require savings and cash reserves after closing.

*More Lenient Qualification Standards.* FHA requires less income to qualify for a mortgage. The standards allow a housing payment which is 31% of a borrower's gross monthly income and total debt service which is 43% of a borrower's gross monthly income. By contrast, most conventional programs have ratios of 28% and 36%. FHA also allows a prospective borrower who does not qualify to add a related co-borrower to the application--and this co-borrower does not have to live in the home.

### FHA Advantages

- ◆ Low Down Payment
- ◆ No Cash Reserves
- ◆ Co-Borrowers Don't Have To Occupy The Property
- ◆ Fixed Rate With Assumable Terms
- ◆ Adjustables With Low Caps
- ◆ Gifts Allowed
- ◆ Rehab program
- ◆ Reverse Mortgage Program

FHA also does not require a minimum credit score to qualify for a mortgage, though there is a very liberal standard for those who are making a minimum down payment. It should also be noted that many lenders that purchase or make FHA loans do have minimum credit score standards.

*FHA ARM Program.* The FHA one-year and 3/1 adjustable mortgage programs are very popular because annual adjustments are limited to one percent each year, as compared to most conventional adjustables which have caps of two percent each year. For example, this means that the 3/1 adjustable can only increase one percent at the

start of the 4th year. Also, the lifetime cap on these FHA adjustables is five percent, while most conventional alternatives have a six percent limit.

*FHA Loans Are Assumable.* FHA remains as one of the few programs to allow assumption of adjustable and fixed rate mortgages at the same rate and term as the original loan. This is a major advantage when you are trying to sell your home in a high-rate environment. Note that the assumption must be accomplished by an owner-occupant that is credit-qualified.

*FHA Has No Maximum Income Limits.* Though FHA loans are limited as to a maximum loan amount, there is no maximum income limitation. Many conventional first time buyer programs that allow a minimum downpayment, also limit the maximum income level of the borrower.

FHA also has programs to help homeowners improve their properties (rehabilitation), refinance their present mortgage and even reverse mortgages for seniors. Put it all together and you have a program that packs a lot of punch with first-time homebuyers or other low-to-moderate income Americans. If you are in the market to purchase a home or refinance your present home, you should look seriously at an FHA mortgage as an alternative. Contact us if you would like more information on whether FHA might be the right option for you.. ☐

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