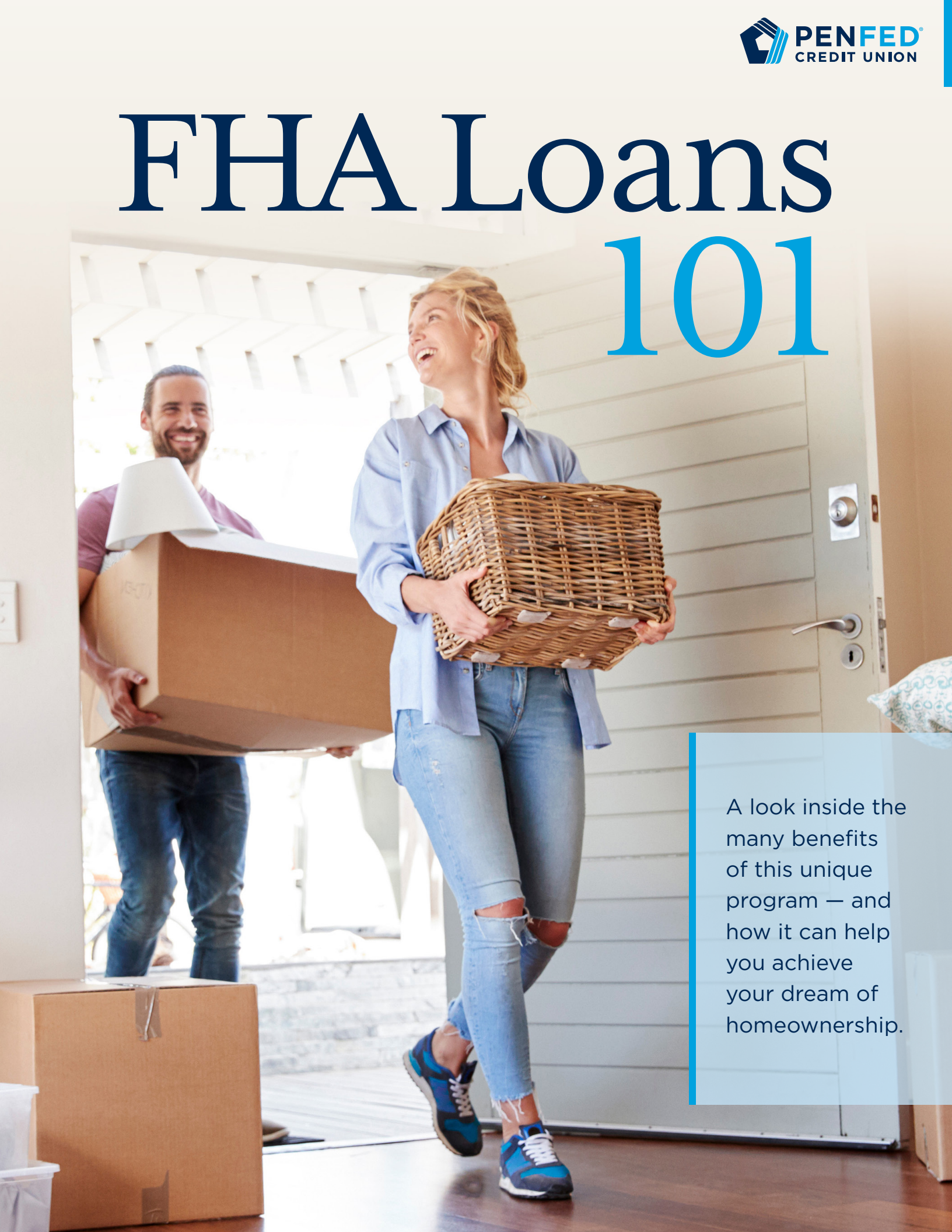
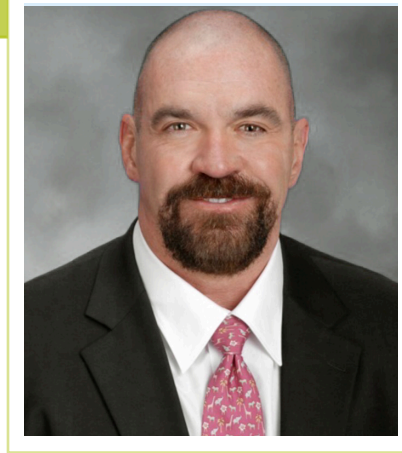


# FHA Loans 101



A look inside the many benefits of this unique program — and how it can help you achieve your dream of homeownership.

# Welcome to PenFed!



Winston Wilkinson  
President, Mortgage Lending

## Making the American Dream a Reality

What's it like to step inside a home of your own? Is the air more inviting, the walls more secure, the memories more meaningful?

For many Americans, buying a home is a milestone representing independence and stability. A rite of passage into a new age of adulthood. One of the biggest investments they'll ever make.

The American Dream may be alive, but many find it out of reach.

That's why the Federal Housing Administration (FHA) partners with lenders across the nation to make homebuying a reality for millions of families. So they can afford and take pride in owning the place they call home.

At PenFed, we believe everyone deserves that chance. The FHA has trusted us for decades to serve aspiring homeowners just like you.

This eBook outlines the FHA loan program and explains the options that are available to you — so that you can make informed choices that are right for your life. And, to know you have support every step of the way.

Sincerely,



Winston Wilkinson



## FEATURES

02 What Is an FHA Loan

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### Get a closer look!



When you see this symbol, pick up more helpful tips in our Mortgage Knowledge Center at [PenFed.org](https://www.penfed.org) >

# What is an FHA Loan?

FHA loans are government-backed loans insured by the Federal Housing Administration (FHA). With ease of entry and money-saving benefits for borrowers, an FHA loan can make the dream of homeownership a reality for first-time homebuyers and those with less than perfect credit.



Need more reasons to consider an FHA loan? >

# Helping Homebuyers for nearly 100 years

The FHA was founded in 1934 as part of President Franklin Roosevelt's New Deal to alleviate hardships during the Great Depression — a time when homebuying was especially difficult. Since then, thanks to the program and its approved lenders, the FHA has insured nearly 50 million mortgages.

## Why FHA? Top 3 Reasons

**1 Low down payments**  
Qualified borrowers can get an FHA loan for as little as 3.5 percent down. Compare that to conventional loans, which often require a 20 percent down payment to get the best rates.

The amount of your down payment affects your interest rate, so you may have to put more down to get a better FHA rate.

And, if you don't have the money, the FHA allows you to use a monetary gift from a family member, friend, employer, charitable organization, or government agency that offers down payment assistance. Additional paperwork will be involved if you want to use a monetary gift.

If you'd like to finance some of your closing costs, let your loan officer know so they can work out the numbers for you.

**2 Low closing costs**  
Trying to spend as little out of pocket as possible? FHA loans allow borrowers to get creative with closing costs — which can add up to 3 to 5 percent of the loan amount.

For example, you may be able to negotiate with the seller to have some of your closing costs rolled into the loan — either by increasing the loan amount or having the seller agree to pay some of the closing costs. In exchange for a slightly higher interest rate, you can receive credit toward your closing costs.

As a bonus, FHA loans also allow the seller to pay up to 6 percent of the sales price toward the borrower's closing costs. Keep this in mind when negotiating your offer.

**Easier to qualify**  
**3**  
Getting approved for an FHA loan is often easier than it is for a conventional loan, making an FHA loan an excellent option if you have less than perfect credit.

If your credit score is less than 620, the FHA interest rate will almost always be lower than a conventional interest rate.



# FHA Loan Eligibility

Now that you've learned about some of the benefits, you may be wondering whether or not you qualify for an FHA loan. Let's look at the basic requirements.



Can't meet the minimum? Here are 8 ways to improve your credit score >

# Could you qualify for an FHA loan?

Are you a first-time homebuyer or worried about qualifying for a conventional mortgage due to limited savings or a low credit score?

**YES** **NO** **Not Eligible**

Is your credit score at least 620?

**YES** **NO** **Not Eligible**

Can you show proof of consistent income?

**YES** **NO** **Not Eligible**

Can you make a 3.5% down payment through your own savings or from a gift?

**YES** **NO** **Not Eligible**

Will the home be your primary residence?

**YES** **NO** **Not Eligible**

If you answered **yes** to most or all of these, an FHA loan may be right for you! Read on to learn more about requirements and how to apply. If you have one or more **no** answers, remember that this is only a guide, not an official determination. Contact the FHA or a qualified lender to discuss your situation.

## Is an FHA loan right for you?

There are many other factors that can affect your eligibility for an FHA loan.

# FHA Requirements

Qualifying for an FHA loan tends to be easier than it is for a conventional loan. However, you still must meet criteria set by both the government and your lender.

Want to buy a house in the next 6 months? Explore 10 things to do >

- **Credit requirements:** The FHA set a minimum credit score of 500. But keep in mind lenders can set their own requirements, called overlays. A common overlay is a minimum credit score of 620.
- **Qualifying ratio:** Your lender will consider two ratios to help determine if it is safe to offer you an FHA loan.

### 1 Mortgage payment to gross income

This ratio sets a limit for how much mortgage you can realistically afford based on your gross (pre-tax) income. To qualify for an FHA loan, it cannot exceed 31 percent. Your maximum monthly mortgage payment includes interest, property taxes, insurance, and other expenses.

MONTHLY INCOME	RATIO	MAXIMUM MONTHLY MORTGAGE PAYMENT
\$6,500	31%	\$2,015
\$5,000	31%	\$1,550

### 2 Debt to income (DTI)

Your income alone isn't enough to show your ability to make mortgage payments. That's why your lender also compares debt to income. It proves that even after your expenses, you have enough to cover housing costs. The DTI ratio cannot exceed 43 percent.

MONTHLY INCOME	RECURRING BILLS	TOTAL MONTHLY DEBTS	RATIO	QUALIFY?
\$6,500	\$600 car payment, \$200 credit cards, \$2,028 mortgage	\$2,828	43.5%	No
\$5,000	\$400 car payment, \$100 credit cards, \$1,550 mortgage	\$2,050	41%	Yes

- **Owner occupancy:** FHA loans are only available for homes the owner lives in. That means they can't be used to buy a second home, vacation home, or investment property.
- **Down payment:** Your down payment will depend on your credit score. If your score is 580 or higher, you'll need to put 3.5 percent down. If your score is 500 to 579, you'll need a 10 percent down payment based on the sales price of the property. If you don't have enough money saved, the FHA allows your down payment to come through gifted funds.
- **Consistent income:** To prove you can afford the monthly payments, your lender will ask for documents showing a consistent income. This can include a job, self-employment income, social security, pensions, and child or spousal support.

# Comparing FHA and Conventional Loans

An FHA loan has advantages and disadvantages — just like a conventional mortgage loan does. See how they compare so you can weigh the pros and cons for your situation.

	FHA PURCHASE LOAN	CONVENTIONAL MORTGAGE
<b>DOWN PAYMENT</b>	As low as 3.5%	20% is standard, but options are available for as low as 3%
<b>CREDIT</b>	Credit score as low as 500; lenders typically require 620	Credit score of 620 or higher, but a better score will have better rates
<b>RATES</b>	Low rates, even with a bad credit history	Best rates for those with good credit and higher down payments
<b>LOAN LIMITS</b>	Depends on location; in 2022, limits were \$420,680 to \$970,800	Based on income, loan type, and other factors; can exceed \$1 million
<b>RESIDENCE</b>	Primary residence requirement	No residence requirements
<b>CLOSING COSTS</b>	Limits on closing costs, plus options to reduce costs further	No closing cost limits
<b>MORTGAGE INSURANCE</b>	Every loan requires mortgage insurance, even with 20% down; borrower is responsible for FHA Upfront Mortgage Insurance Premium (UFMIP) and FHA Monthly Insurance Premium (MIP)	No mortgage insurance required with a 20% or more down payment; if less than 20% down, borrower is responsible to pay monthly Private Mortgage Insurance (PMI) until they reach 20% equity

**You may not want an FHA loan if you:**

- Have excellent credit
- Have funds for a 20% down payment
- Are buying a higher priced home or investment property

Discover the 7 steps to buying a home in our [eBook](#).

FHA loan limits vary by location and can change from year to year.

[Search for the current limits in your area.](#)



## FHA loans in the homebuying process

If you're new to homebuying, it can feel intimidating. And if you're buying a home with an FHA loan, there are a few additional details to be aware of. These include special mortgage insurance and property guidelines.

## Mortgage insurance: MIP vs PMI

Mortgage insurance was created to help make homeownership possible and to protect the lender in case of a default on a loan. A conventional mortgage requires Private Mortgage Insurance (PMI) for loans with less than 20% down. PMI is paid as a monthly fee.

What is a mortgage insurance premium (MIP)? The monthly insurance premium is paid monthly. FHA loans have two types of mortgage insurance: one to be paid upfront and the other as a monthly fee. The upfront mortgage insurance premium (UFMIP) can be paid at closing or rolled into the loan.

## FHA property guidelines and requirements

FHA's primary residence requirement restricts borrowers from buying a home to be used as a vacation home or investment property.

*What can you buy with an FHA loan?*

- Single-family home
- Approved condo
- Approved manufactured home
- Multifamily property that you intend to live in

An FHA-approved appraiser will review the property to ensure it meets the safety, durability, and usability standards.



Read more about FHA mortgage insurance premiums >



# Refinancing Your FHA LOAN

There may come a time when you want to refinance your mortgage for a better rate or different term. An FHA streamline refinance is an option available exclusively to those with a current FHA loan.

## Benefits of an FHA streamline refinance

- Faster and less paperwork than a regular refinance
- Better rates and terms than a conventional refinance, with little work on your end
- Two options available: credit qualifying and non-credit qualifying

## What you should know about FHA streamlines

An FHA streamline comes with costs. Closing costs include a UFMIP, title fees, and possibly escrow accounts. These can be paid upfront, rolled into the loan, or offset by a higher interest rate.

Unfortunately, refinancing with an FHA streamline does not eliminate the need for MIP. The best way to get rid of paying MIP is to increase your credit score to at least 620 and then refinance into a conventional home loan. Note: This step is completely optional. You do not need to refinance if you are comfortable with your current terms and payment.

A streamline is not meant to be a way to cash out your home equity. The most cash you can get through an FHA streamline refinance is \$500.

## Beware of “zero cost” refinances

If something sounds too good to be true, it usually is. Advertisements for “zero cost” refinances may seem like a better deal because they remove upfront costs. In reality, those costs are rolled into the loan or absorbed by a higher interest rate.

## How to refinance your FHA loan

There must be net tangible benefit for a borrower to refinance into another FHA loan. Before getting started, your lender will make sure it is in your best financial interest. You'll receive an estimate with the costs involved to help you make an informed decision.

Dig into the details of refinancing a mortgage in our [eBook](#).



**Still have questions?  
You're not alone.  
See the top FHA  
Frequently Asked  
Questions >**



## Is an FHA Mortgage Right for You?

In this eBook, you learned the ins and outs of FHA loans — the benefits, drawbacks, and how they compare to conventional counterparts.

FHA loans aren't for everyone, but they do make homeownership available to millions of Americans who otherwise may have never had the opportunity. That could be you, too.

### Opportunity is knocking

If you're ready to answer the call to homeownership, PenFed is here to help. Visit our [Mortgage Center](#) or visit [Get My Rate](#) to start a quote.





## Check out all our PenFed Mortgage Knowledge Center references:

### What Is an FHA Loan?

Page 3, Need more reasons to consider a FHA loan?

<https://www.penfed.org/mortgage-knowledge-center/advantages-of-fha-loans>

### Eligibility

Page 5, Can't meet the minimum? Here are 8 ways to improve your credit score

<https://www.penfed.org/learn/how-do-i-improve-my-credit-score>

Page 7, Want to buy a house in the next 6 months? Explore 10 things to do

<https://www.penfed.org/mortgage-knowledge-center/10-things-to-do-buy-house-6-months>

### Comparison

Page 9, Read more about FHA mortgage insurance premium

<https://www.penfed.org/mortgage-knowledge-center/fha-mortgage-insurance-premium>

### Refinancing

Page 11, Still have questions? You're not alone. See the top FHA Frequently Asked Questions

<https://www.penfed.org/mortgage-knowledge-center/fha-frequently-asked-questions>

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Disclaimer: Dollar amounts, fee estimates, percentages, and any and all other references to mortgage financing are general estimates only and not to be construed as statements of fact or as a promise to offer or extend any rights, privileges, or permissions to any individual or entity.

### **VISIT SOURCES**



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