FHA Loan Requirements

Important FHA Guidelines for Borrowers

The FHA, or Federal Housing Administration, provides mortgage insurance on loans made by FHA-approved lenders. FHA insures these loans on single family and multi-family homes in the United States and its territories. It is the largest insurer of residential mortgages in the world, insuring tens of millions of properties since 1934 when it was created.

PMI or Primary Mortgage Insurance
Mortgage insurance is a policy that protects lenders against losses that result from defaults on home mortgages. FHA requires both upfront and annual mortgage insurance for all borrowers, regardless of the amount of down payment.

2017 MIP Rates for FHA Loans Over 15 Years

If you take out a typical 30-year mortgage or anything greater than 15 years, your annual mortgage insurance premium will be as follows:

Base Loan Amount	LTV	Annual MIP
≤ $625,500	≤ 95%	80 bps (0.80%)
≤ $625,500	> 95%	85 bps (0.85%)
>$625,500	≤ 95%	100 bps (1.00%)
> $625,500	> 95%	105 bps (1.05%)

2017 MIP Rates for FHA Loans Up to 15 Years

Homebuyers who can afford to pay off their loans quicker and opt for a shorter term, such as a 15-year mortgage, will benefit from lower mortgage insurance premiums, as follows:

Base Loan Amount	LTV	Annual MIP
≤ $625,500	≤ 90%	45 bps (0.45%)
≤ $625,500	> 90%	70 bps (0.70%)
> $625,500	≤ 78%	45 bps (0.45%)
> $625,500	78.01% to 90%	70 bps (0.70%)
> $625,500	> 90%	95 bps (0.95%)

How Long Will You Pay 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 at 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	78.01% to 90%	cancelled at 78% LTV	11 years
≤ 15 years	> 90%	loan term	loan term
> 15 years	≤ 78%	5 years	11 years
> 15 years	78.01% to 90%	cancelled at 78% LTV and 5 years	11 years
> 15 years	> 90%	cancelled at 78% LTV and 5 years	loan term

LOAN LIMITS

The FHA has a maximum loan amount that it will insure, which is known as the FHA lending limit. These loan limits are calculated and updated annually, and are influenced by the conventional loan limits set by Fannie Mae and Freddie Mac. The type of home, such as single-family or duplex, can also affect these numbers.

GATHER YOUR INFO

Before you start the FHA loan process, be prepared to provide some information to your loan officer. Have it ready now to save time later.

- Address to your place of residence (past two years)
- Social Security numbers
- Names and location of your employers (past two years)
- Gross monthly salary at your current job(s)
- Pertinent information for all checking and savings accounts
- Pertinent information for all open loans

- Complete information for other real estate you own
- Approximate value of all personal property
- Certificate of Eligibility and DD-214 (for veterans only)
- Current check stubs and your W-2 forms (past two years)
- Personal tax returns (past two years), current income statement and business balance sheet for self-employed individuals

In addition, you will need to pay for a credit report and appraisal of the property.

As the buyer and borrower, you will have items on your checklist that are required by your lender, the seller, and even the title company.
The closing checklist covers all the fees to be paid, the information to be provided, and the disclosures to be signed before the title is conveyed to you. Having this checklist ready helps you stay on track as a buyer, and ensures that your closing goes the way you expect.

- IDENTIFICATION
  All parties at the closing should have valid ID.
- POLICY OF TITLE INSURANCE
  You must pay for title insurance that guarantees the property is free of previous claims or liens.
- INSURANCE
  Before you can close on the property, you need to secure homeowner's insurance, which insures the property in the case of damage.
- CLOSING FUNDS
  You must bring all funds agreed upon, in the form of a cashier's check or via electronic wire.

Take the time to discuss the items on your checklist with your realtor, to make sure there is nothing you're forgetting, and to have the peace of mind that after the closing settlement you'll be able to move into your new home.

CLOSING COSTS

While FHA requirements define which closing costs are allowable as charges to the borrower, the specific costs and amounts that are deemed reasonable and customary are determined by each local FHA office. All other costs are generally not allowed and are usually paid by the seller when buying a new home, or paid by the lender when refinancing your existing FHA loan.

- Lender's origination fee
- Deposit verification fees
- Attorney's fees
- The appraisal fee and any inspection fees
- Lender's origination fee
- Cost of title insurance and title examination
- Document preparation (by a third party)
- Property survey
- Credit reports (actual costs)
- Transfer stamps, recording fees, and taxes
- Test and certification fees
- Home inspection fees up to $200

Allowed in an FHA refinance loan are wire transfer fees, courier fees, reconveyance fees, and fees to payoff bills.

UNDERSTAND YOUR CREDIT

Before approving a loan, the lender analyzes the integrity of the borrower's past credit performance. Based on FHA requirements, those who have a good credit history demonstrated by a solid track record of timely payments will likely be eligible for a loan. Potential borrowers whose credit history is marred by slow payments, poor financial judgment and delinquent accounts is not a good candidate for loan approval.

The following is a list of items concerning the borrower's credit:

No Credit History

Two lines of credit are necessary to apply for an FHA loan. However, in the event a borrower does not have sufficient credit on their credit report the FHA will allow substitute forms.

Chapter 13 Bankruptcy

FHA will consider approving a borrower who is still paying on a Chapter 13 Bankruptcy if those payments have been satisfactorily made and verified for a period of one year. The court trustee's written approval will also be needed in order to proceed with the loan. The borrower will have to give a full explanation of the bankruptcy with the loan application and must also have re-established good credit, qualify financially and have good job stability.

Chapter 7 Bankruptcy

At least two years must have elapsed since the discharge date of the borrower and / or spouse's Chapter 7 Bankruptcy, according to FHA guidelines. This is not to be confused with the bankruptcy filing date. A full explanation will be required with the loan application. In order to qualify for an FHA loan, the borrower must qualify financially, have re-established good credit, and have a stable job.

Late Payments

During an underwriter analysis of borrower credit, the overall pattern of credit behavior is being reviewed rather than isolated cases of slow payments. If a good payment pattern has been maintained, regardless of a specific period of financial difficulty preceded it, the borrower may escape disqualification.

Foreclosure

FHA insured mortgages are generally not available to borrowers whose property was foreclosed on or given a deed-in-lieu of foreclosure within the previous three years. However, if the foreclosure of the borrower's main residence was the result of extenuating circumstances, an exception may be granted if they have since established good credit. This does not include the inability to sell a home when transferring from one area to another.

Collections, Judgments, and Federal Debts

A collection is minor in nature usually does not need to be paid off as a condition for loan approval. It is stated as such in FHA guidelines. Any judgments will have to be paid in full prior to closing. Borrowers who are delinquent on any federal debt, such as tax liens, student loans, etc., are not eligible.