HomeWise

Free Educational Resources for Homebuyers

FHA Loan Booklet

3.5% down, credit flexibility, and how mortgage insurance works.

FHA Loans

FHA loans are insured by the Federal Housing Administration and designed to make homeownership accessible to buyers with smaller down payments or less-established credit.

Low down payment

With a credit score of 580 or higher, you may qualify with just 3.5% down. Buyers with scores between 500-579 may still qualify with 10% down, depending on the lender.

Mortgage insurance (MIP)

FHA loans require an upfront mortgage insurance premium (often financed into the loan) plus an annual premium paid monthly. On most FHA loans with less than 10% down, this annual MIP lasts the life of the loan unless you refinance; with 10% or more down, it can drop off after 11 years.

Is FHA right for you?

FHA can be a great fit if your credit is still improving or your savings are limited. If you have strong credit and 5%+ to put down, a conventional loan may end up cheaper over time because PMI is removable. Run both scenarios.

Who FHA Loans Are Built For

Loans insured by the Federal Housing Administration were created to widen access to homeownership. They are popular with buyers who have a smaller down payment or a credit history that is still growing.

- Down payments can start as low as 3.5% for qualified buyers.
- Credit expectations are often more flexible than on some other loans, though the specific bar is set by each lender.
- Gift funds from family are frequently allowed for the down payment -- confirm the documentation rules.

Understanding FHA Mortgage Insurance (MIP)

Because FHA loans allow low down payments, they include mortgage insurance premiums, or MIP, that protect the program. There are two parts to be aware of.

- An upfront premium, usually added to the loan amount.
- An annual premium, paid monthly as part of your payment.

On many current FHA loans the annual premium remains for the life of the loan unless you refinance out of FHA. That is a key reason some borrowers later refinance into a conventional loan once they have enough equity and credit to qualify -- a move worth modeling against the cost of refinancing.

FHA Property and Appraisal Standards

An FHA appraisal does two jobs: it estimates value and checks that the home meets basic minimum property standards for safety and soundness.

- Issues like exposed wiring, missing handrails, or a failing roof may need to be addressed before closing.
- These standards protect buyers from inheriting serious hidden problems, but can affect homes sold strictly as-is.

If a home needs significant work, an FHA 203(k) rehabilitation loan is a specialized option that can bundle the purchase and certain repairs into one loan.

FHA Loan Limits and Refinancing Paths

FHA sets maximum loan amounts that vary by county and are higher in costlier areas. If your target price exceeds the local limit, you may need a different program.

- Check the current FHA limit for the county where you are buying.
- An FHA streamline refinance can lower the rate on an existing FHA loan with reduced paperwork.
- Refinancing from FHA into a conventional loan is a common way to eventually drop mortgage insurance once you qualify.