

A Guide for First-Time Home Buyers & FHA Loans

By **Jay Mathison – Nationwide Realty Group, Inc.**

March 1, 2009

Exactly What is an FHA Loan?

Essentially, the federal government insures loans for FHA-approved lenders so that lenders reduce their risk of loss if they lend to borrowers who could default on their mortgage payments. The FHA program has been in place since the 1930s to help stimulate the housing market by making loans accessible and affordable. Traditionally, FHA loans have helped military families who return from war, the elderly, handicapped, or lower-income families, but really, anyone can get an FHA loan - they are not just for first-time home buyers.

Who Can Qualify for an FHA Loan?

Almost anyone can qualify for an FHA loan, with the only limit being how much you want to borrow. Not to worry, a majority of borrowers fall well under the maximum allowable loan limits

- You must demonstrate that you have maintained a consistent employment history. FHA likes to see 2 years of work in the same field or with the same employer or maintain a steady income. Borrowers that have started new jobs may still qualify if they have past experience in the new field or it's the same field as the previous job.
- You must have a valid Social Security number, lawful residency in the U.S., and be of legal age to sign a mortgage.
- Must have the property appraisal from an FHA-approved appraiser.
- Mortgage payment (including principal, interest, property taxes, and property insurance) needs to be at or under 31% of your gross monthly income.
- Monthly debt (mortgage, credit cards, auto, student loans, etc.) can't be more than 43% of your monthly income.
- Must be 2 years out of a Chapter 7 Bankruptcy, with good credit.
- Must be 1 year out of Chapter 13, with good credit.
- Must be 3 years out of a foreclosure, with good credit.

What are the Major Benefits to going with an FHA Loan?

- Very low down payment requirements – only 3.5% of the purchase price is required vs. 20% with conventional loans. You may also borrow or have your down payment gifted to you by your family member.
- Very low credit score requirements – just average credit is fine. Right now, a minimum of 620 credit is all that is required.
- Very low closing cost requirements – we can typically negotiate the seller pays all closing costs.
- Much easier to qualify for an FHA loan vs. going with a conventional loan.

What are the Disadvantages of an FHA Loan?

Because FHA does not have the strict requirements of a conventional loan, it does require the borrower to have 2 kinds of mortgage insurance.

- The first is one you will never see because it is blended right into the loan (equal to 1.5% of the home's value).
- The second is an annual premium which is equal to either .50% or .55%. If your LTV (loan to value) is less than 95%, you would pay .50%. If your LTV is greater than 95%, which it is in most cases because most borrowers put down the minimum 3.5%, you would pay .55%.

Example: Let's assume you have a \$200,000 loan $\times .0055 = \$1100$. Now divide $\$1100/12$ months = \$91.67/m. Most borrowers believe that the \$91.67/m is a very small price to pay for the ability to buy a home with such a low down payment and relaxed loan qualification process. [See our Mortgage Calculator for exact calculations.](#)

The annual premium will eventually go away in most cases within 5 years or when the remaining balance on the loan is 78% of the value of the property, whichever is longer.

What is this NEW \$8000 First-Time Home Buyer Credit? Do I have to Repay it?

Congress Enacts Bigger and Better Home Buyer Tax Credit

- A tax credit of up to \$8,000 is now available for qualified first-time home buyers purchasing a principal residence on or after January 1, 2009 and before December 31, 2009. Unlike the tax credit enacted in 2008, the new credit does not have to be repaid.

Can I Qualify as a First-Time Buyer?

The Buyer (and the buyer's spouse) may not have owned a principal residence in the last 3 years before purchasing a new home. If you haven't been a home owner for the past 3 years, you're a qualified first-time home buyer.

But remember, you don't have to be a First-Time Home Buyer to qualify for an FHA loan.

Is 2009 a good time to buy a home?

Conventional wisdom says that this is an awful time to buy a new home. The housing market isn't pretty. Mortgage companies have tightened their guidelines and homes are sitting on the market for months without selling. If you listen to the news, it's all doom and gloom with talk of recession and inflation, and questions of how long it will be before we see a recovery. So who would want to buy a home now?

Here in Illinois the market isn't as bad as it is in other parts of the country, but if you are a seller sitting in a home that won't sell, the situation is grim. But the bad news for the seller is great news if you are looking to buy a home. Here are some reasons to buy a home here in the Chicago area, now:

- **Selection** – There are homes in the market in all areas and all price ranges. With more houses on the market you can pick and choose and find the home you want. It wasn't so long ago that buyers were jumping on new listings as they came onto the market, even if the home wasn't exactly what they were looking for. You can pick and choose, now.
- **It's a buyer's market** – Again, the best time to buy is when most people want to sell. If you buy now you can get a lot more house for your money, and you have a lot more negotiating power.
- **Interest rates are low** – Mortgage interest rates are at their lowest point in the last several years. This means your mortgage payment takes you a lot farther than it did before. We're not that far off of the all-time lows we hit several years back. It is smart to take advantage of the low mortgage rates while they are still available.
- **Great financing is available** – There's a lot of talk about how the problems in the mortgage market have made it harder for borrowers to get financing. Some programs have been cut out, and guidelines are tougher than they were before. But there is still a lot of mortgage money available, including options for low money down, and some great programs for first-time home buyers.
- **Tax savings** – Buying a home is one of the best ways to save money on taxes. Your mortgage interest, real estate taxes and in many cases mortgage insurance are all tax deductible. If you are a first-time home buyer this means that after-tax, you can pay a lot more for a mortgage payment than you pay for rent.

- **Tax Refunds** – All you need for an FHA down payment is 3.5%. A great time to buy is when you receive your federal income tax refund.

How Do I Get Started?

The best way to get started is by contacting a qualified FHA loan specialist to get Pre-Approved for a specific loan amount so we can get started looking at homes within that price range.

We work very closely with a trusted and proven mortgage company by the name of Mid American Mortgage, Inc., based out of Downers Grove. If your interested in learning more, all you have to do is give them a call, ask for Roger McGuire, and tell them you would like to have a FREE credit check and loan Pre-Approval. Make sure to tell them we sent you.

From our experiences working with Mid American Mortgage, they will spend as much time as you require, assisting you with any financial related questions and guiding you to further enhance your credit scores, if necessary.

Roger McGuire can be reached directly at 630-971-1901 or by email at roger@midam-mtg.com. For additional information you can also visit www.midam-mtg.com.

Jay B. Mathison
Licensed Real Estate Professional

Nationwide Realty Group, Inc.
900 Ogden Avenue, Suite 205
Downers Grove, IL 60515
Office - Direct (630) 636-9525