



U.S. Department of Housing and Urban Development
Office of Housing • Office of Single Family Housing



The Guide to Single Family Home Mortgage Insurance

www.hud.gov
espanol.hud.gov



Becoming a Homeowner

Many people in the United States dream of owning their own homes, but few are able to pay cash for them. Many individuals and families who could not otherwise afford to own a home become homeowners with the help of the Federal Housing Administration (FHA) mortgage insurance programs.

FHA is a part of the U.S. Department of Housing and Urban Development (HUD). One of the chief purposes of FHA is to help people obtain financing to buy their homes.

This booklet can help homebuyers understand how they can make use of FHA mortgage insurance programs. It explains:

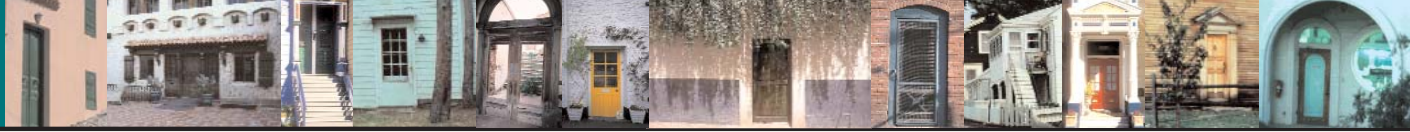
- How FHA mortgage insurance works
- Who can use FHA mortgage insurance
- How to shop for a HUD-approved lender
- How to apply for an FHA-insured mortgage loan
- What restrictions apply to FHA-insured mortgage loans

Buying a home is the biggest single purchase that most people will make in their lifetimes. Most people borrow money through a mortgage loan to buy a home. Some people reduce the amount of money they borrow by making a large downpayment on the loan to buy a home. Persons who do not have money for a large downpayment may need the help of an FHA-insured mortgage to get a loan.



Mortgage—A legal document that promises a property to the lender as security for payment of a debt. See page 5 for more information about mortgage loans.

Downpayment—The part of the purchase price that a buyer pays in cash and is not included in the mortgage.



How FHA Mortgage Insurance Works

FHA's mortgage insurance programs help low- and moderate-income individuals and families obtain financing to buy homes or refinance their current mortgages. FHA mortgage insurance allows a homebuyer to make a low downpayment and get a mortgage loan for the balance of the purchase price.



The mortgage loan is made by a HUD-approved lender, such as a bank, mortgage company, or credit union. FHA insures the mortgage

and pays the lender if the homebuyer defaults on the loan, or fails to repay the loan.

FHA/HUD does not make direct loans to people who want to buy, build, or refinance homes.

Who Can Get FHA Mortgage Insurance

If you are buying a home, refinancing a mortgage for a home you already own, or making home improvements, you may qualify for an FHA-insured mortgage.

In fact, almost anyone who has a satisfactory credit record, enough cash to close the loan, and sufficient steady income to make monthly mortgage payments can be approved for an FHA-insured mortgage. There is no upper age limit and no certain income level required, although individual mortgage amounts are limited by law. Generally, homebuyers must live in the home in order to get an FHA-insured mortgage loan. The program is not open to investors.

To find a HUD-approved housing counseling agency near you, call the HUD housing counseling and referral line toll-free at 1-800-569-4287 or visit the HUD website at www.hud.gov.

To find a HUD-approved lender, search online at www.hud.gov. You can also find lending institutions in the yellow pages of the telephone directory under the heading "Mortgages."

To find out if you qualify for an FHA-insured mortgage loan, you should visit a HUD-approved housing counseling agency or a HUD-approved lender, such as a bank, credit union, or mortgage company.

The housing counselor or lender will look at certain information about your income and spending to determine if you qualify.

Federal law prohibits housing discrimination based on your race, color, national origin, religion, sex, family status, or disability.

How FHA Mortgage Insurance Can Help You

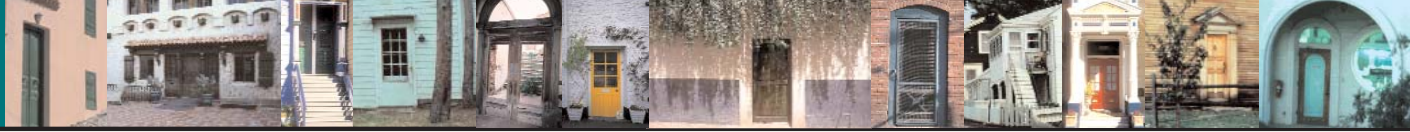
Whether you are buying a home, making home improvements, or refinancing your current mortgage, you should work with a HUD-approved lender—such as a bank, a mortgage company, or a credit union—to apply for a mortgage loan.

Once your loan is approved, FHA will insure the loan and pay the lender if you default on the mortgage. Because the lender is protected by this insurance, the lender can give you better terms on your loan.

A lower downpayment—Some lenders require borrowers to pay 10 percent or more of the price of a home in cash as a downpayment. With FHA-insured mortgages, your downpayment can be as low as 3 percent. The lender will likely require you to prove that you have enough money for the loan downpayment.

Use of cash gifts toward downpayment—With an FHA-insured mortgage, under certain circumstances you can use a gift from a relative, a local nonprofit organization, or a government agency for all or part of the downpayment and closing costs.





The Kinds of Homes Covered by FHA Mortgage Insurance

FHA-insured mortgages are available in urban and rural areas for:

- Single family houses
- Houses with two, three, or four units
- Condominium units
- Houses needing rehabilitation

In addition, FHA-insured mortgages are available for reverse mortgages for seniors, called a Home Equity Conversion Mortgage.

To make sure that its programs serve low- and moderate-income people, FHA sets upper limits on the dollar value of the mortgage loan. These limits change every year and vary by city and state. Check with a local lender or look online on HUD's website, www.hud.gov.

Shopping for an FHA-Insured Loan

Since buying a home is one of the most important purchases you will make in your lifetime, HUD recommends you visit a HUD-approved housing counseling agency where a counselor can help you compare loans and give you homebuying tips. You can find counseling agencies by calling the HUD housing counseling and referral line toll-free at 1-800-569-4287 or visiting the HUD website at www.hud.gov. You can also find HUD-approved lenders on the HUD website.

Your house hunting and homebuying experience can be easier when you become pre-qualified for a loan. To become pre-qualified, you will complete a pre-qualification loan application. When a lender pre-qualifies you, the lender tells you the maximum amount of money you can borrow to buy a home. With that information, you can spend your time looking at homes that you can afford rather than ones that are too expensive. Some lenders may charge a fee for pre-qualification, so you should ask about fees and compare two or more lenders.

You should shop for an FHA-insured mortgage loan the same way you shop for any high-cost item—compare prices and features. The cost of getting a mortgage can vary from one lender to another, so compare these features when you are comparing lenders:

- Interest rate
- Discount points
- Closing costs and other fees
- Annual percentage rate

FHA/HUD does not set the amounts for the above factors. You can negotiate with the lender and come to agreement on the interest rate, points, and most processing fees.

Interest Rate

You can negotiate with your lender on the interest rate that you will pay for your mortgage. Interest rates fluctuate daily, depending on conditions in the mortgage market. FHA recommends that you check with several mortgage lenders to make sure you get the best interest rate available.

Discount Points

Lenders can charge you discount points when the interest rate is lower than the yield required by investors who buy mortgage securities. A discount point is \$1 for every \$100 of the mortgage loan amount. The number of points charged varies in different places at different times and among different lenders. Discount points for an FHA-insured mortgage may be paid by you as the homebuyer, by the homebuilder, or by the person selling the house.

Closing Costs and Prepaid Items

When your loan is finalized, you will have to pay closing costs. Closing costs are costs in addition to the price of the property that are paid when you close your loan to cover the transfer of ownership.

A mortgage loan is made up of two parts: principal and interest. *Principal* is the amount of money borrowed to buy your home. *Interest* is the amount paid for the privilege of borrowing the money and paying it back later, usually over 30 years. When the borrower pays the mortgage each month, some of the amount goes toward paying the principal and some toward interest. *Equity* is an owner's financial interest in a property. It is the difference between the amount still owed on the mortgage loan and the fair market value of the property.



Closing costs are generally made up of the following:

- Closing agent's or attorney fees
- Interest paid from date of closing through the end of the month of closing
- Loan origination fee to cover lender administrative costs
- Credit report fees
- Appraisal fees
- Recording fees
- Survey fee
- First mortgage insurance premium
- Title insurance (yours and your lender's)



Certain of these closing costs, as well as certain of the prepaid items listed below, may be paid by the seller, or shared between the borrower and the seller, depending on the terms of the sales contract.

Prepays are advance payments (property taxes, first annual premium for homeowners insurance, etc.) made at closing by the borrower that may be placed in an escrow account and used by the lender to pay these bills as they become due.

The property tax you will pay is the amount that the state or locality, or both, assesses as a tax on your piece of property based on the value. While the property taxes due at closing are usually covered in your pre-pays, your mortgage payment will also include an amount to pay future taxes as assessed by your state or locality. These tax rates vary by area and typically increase over time.

Homeowners Insurance combines hazard insurance and liability insurance. Hazard insurance covers property damage caused by fire, wind, storms, and other similar events. Coverage for earthquakes and floods may or may not be included with hazard insurance, and you should check with your insurance carrier to determine if this is included in your policy. Liability insurance coverage protects you against claims alleging negligence or inappropriate action resulting in bodily injury or property damage.

Annual Percentage Rate

The Truth in Lending Act requires the lender to tell you the annual percentage rate (APR) charged on your home mortgage. The annual percentage rate is calculated by adding the interest rate, the discount points, the initial service charge, the premium paid to insure the mortgage, and certain other charges collected by the lender. The APR is not the same as the mortgage loan interest rate.

The Cost of FHA Mortgage Insurance

When you get a mortgage loan insured by FHA, you have to pay an up-front insurance premium, which can be included in the loan you get through a lender. You will also have to pay a monthly insurance premium that is added to the regular mortgage payment. FHA uses the premiums to pay the lender if you default on your mortgage.

The Importance of Getting a Home Inspection

Buying a home is one of the most important purchases you will make in your lifetime, so you should be sure that the home you want to buy is in good condition. A home inspection is an evaluation of a home's condition by a trained expert. During a home inspection, a qualified inspector takes an in-depth and impartial look at the property you plan to buy. The inspector will:

- Evaluate the physical condition: the structure, construction, and mechanical systems.
- Identify items that should be repaired or replaced.
- Estimate the remaining useful life of the major systems (such as electrical, plumbing, heating, air conditioning), equipment, structure, and finishes.

After the inspection is complete, you will receive a written report of the findings from the home inspector, usually within five to seven days.

FHA does not guarantee the value or condition of your future home, and FHA does not perform home inspections. If you find problems with your new home after closing, FHA cannot give or lend you money for repairs, nor can it buy the home back from you.



That's why it is so important for you, the buyer, to get an independent home inspection. You should remember that an inspection is different from an appraisal, which also will be performed as part of the mortgage process. Ask a qualified home inspector to thoroughly examine the physical condition of your future home and give you the information you need to make a wise decision.

Information Resources

You may want more information for yourself, your family, or others. The following services are available to help you.

Internet

www.hud.gov or espanol.hud.gov

HUD's website contains comprehensive information about homebuying, homeownership, selling a home, making home improvements, and other housing-related topics—in English and Spanish.

HUD-Approved Housing Counseling Agency Locator

HUD supports a network of approved housing counseling agencies that provide counseling services across the nation. For a complete list of HUD-approved agencies in your area, call the HUD housing counseling referral line toll-free at **1-800-569-4287** or visit the HUD website at www.hud.gov.

HUD-Approved Lenders

A searchable database of HUD-approved lenders, including banks, mortgage companies, and credit unions, is available on the HUD website at www.hud.gov.

HUD Customer Service Center

1-800-767-7468 (TTY: 1-800-877-8339)

<https://webapps1.hud.gov/dds/>

Most of the information products developed by HUD are available from HUD's Customer Service Center by calling toll-free 1-800-767-7468 (TTY: 1-800-877-8339) weekdays between 8:00 a.m. and 5:15 p.m. EST. Written requests should be addressed to: U.S. Department of Housing and Urban Development, Customer Service Center, Room B-100, 451 Seventh Street, SW, Washington, DC 20410. You may fax requests to (202) 708-2313.



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