FHA Training: 5 Myths About FHA Mortgages

FHA loans are a great tool that allows many potential first time homebuyers with past credit problems to break into the housing market. Prices are low and seller concessions are high in the today's real estate buyer's market. However, most of the subprime mortgage 100% financing deals are gone. FHA is the only way for many prospective buyers to get a mortgage. Also hundreds of thousands of homeowners who bought homes over the past few years using those subprime mortgages are now facing interest rate increases of 3 to 5 percent or more! Five minutes of watching business news lately will easily explain why these people don't believe they still have any mortgage options left.

Here are 5 myths about FHA loans that prevent many from trying.

1. FHA loans take longer to get approved.

In today's mortgage world where automated underwriting and paperless processing dominate, FHA loans don't take any longer than conventional loans to close if you are being helped by a loan officer who understands how to process FHA loans.

2. FHA loans require a lot of extra paperwork.

The documentation required for an FHA loan is almost exactly the same as that required for a conventional loan. FHA requires only a few extra documents more than a conventional loan, and the extra documents that FHA requires take little extra time and are there to protect you during the process.

3. FHA loans are more expensive than conventional loans.

FHA loan interest rates are based upon the same market factors that conventional rates are based on. As a matter of fact, even when considering the FHA mortgage insurance premiums added to your payment, FHA loans are often less expensive than conventional mortgages for first time borrowers and borrowers with past or even present credit problems.

4. FHA required mortgage insurance is too expensive.

Every conventional mortgage above 80% of the value of the property being financed requires mortgage insurance which will pay off a portion of the loan if the borrower defaults. Prior to the invention of mortgage insurance programs, all lenders required 20 percent down payments to obtain a mortgage. FHA's mortgage insurance program does require a small upfront mortgage insurance payment which is automatically added to your loan, and a small yearly mortgage insurance premium which is divided up and added to your monthly payments. This is actually very inexpensive compared to new conventional mortgage insurance rates which can require almost 3% per year in mortgage insurance to be added to the the typical borrower with lower credit scores! As of July 14, 2008 this mortgage insurance costs less if your credit is better.

5. FHA loans have very restrictive guidelines.

In fact, the exact opposite is true in many respects. Although FHA loans have lower maximum loan amounts than conventional mortgages, they don't have the income restrictions placed on Fannie Mae and Freddie Mac community lending products. Getting an FHA loan with limited or no credit history, or credit problems is much easier than obtaining a conventional mortgage. FHA allows for manual underwriting. This means that if the automated underwriting system does not approve your loan, an underwriter can actually look at your file and determine if common sense dictates that you would be able to afford the mortgage. The underwriter can approve your loan even if the automated system turned it down. Manual underwriting is common for FHA loans and very rare for conventional loans. In addition, if interest rates later go down, FHA loans allow for a streamlined, no requalifying refinance process.

About the Author

FHA training and an expert understanding of FHA guidelines is necessary to prevent being left behind in the mortgage industry today. Mortgage brokers will make more money and really help more borrowers by mastering FHA.