

SPECIAL
POINTS OF
INTEREST:

- Downpayment of 3.5%
- FICO as low as 580
- Gifts are allowed for downpayment
- Seller can credit up to 6%

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FHA, the Only Option?

In our January, 2009 issue, we discussed *FHA, The Best Bet?*, please see <http://www.washingtonreal.com/Newsletter/>. With the recent tightening of credit guidelines, it has become increasingly difficult for homebuyers to qualify for loans. FHA loans, or Federal Housing Administration loans are loans insured by the US Department of Housing and Urban Development (HUD).

While these types of loans fell out of favor especially in California in mid 1990s to mid 2000s, they are in resurgence and in some cases the sole solution to several lending scenarios. According to HUD, mortgages insured by FHA accounted for 17.1 percent of the total volume in home loans during the first quarter of 2009, compared to 3.7 percent in 2006. In our January issue we estimated that it will count for about 25% of the loans for 2009, it looks quite probable. In this issue we will discuss the main components of these loans and the requirements to secure an FHA loan. The following are components of an FHA loan;

- Low down payments, as low as 3.5%.
- Easier qualification criteria, minimum FICO of 580, or

no credit score is allowed.

- Restricted closing costs as regulated by FHA.
- Gift could be used for downpayment and closing costs.
- No reserves required (in conventional loans, you are required to have two/three months of mortgage payment in the bank after closing.)
- The Seller can credit up to 6% of sales price towards buyers costs.
- One can purchase a home two years after a bankruptcy.
- One can purchase a home three years after a foreclosure.
- Less than two years on the job is permitted, however, two years of steady income with same employer is the preference.
- Your new mortgage payment should be approximately 30% of your gross income that is before taxes.
- The current Debt to Income (DTI) ratio is 41%, that is total debt including credit cards, and other charges that are reported on your credit report.

Some pertinent facts to note about FHA loans are that one do not have to be a first time buyer to obtain a FHA loan, thus, anyone may use

FHA loan as long as they do not have more than one FHA insured loan at any one time. FHA mortgages could be more expensive than conventional loans, due to the required premium for mortgage insurance (PMI). However, recently they have competitive interest rates, as the government attempts to hold down on interest rates to spur home sales.

If you are interested in buying homes that need repairs, most banks refuse to lend until the repairs are completed, but you need the purchase to be completed before repairs can commence. The FHA 203(K) program allows the buyer to do just that. It can help the buyer to purchase or refinance a property and include in the loan the cost of making the repairs and improvements. This program also allows the buyer to include in the loan, up to six months of the mortgage payments. This will help the buyer avoid mortgage payments while the property is being repaired.

If you need help with your real estate transaction, please call 916.675.1177 or e-mail as@washingtonreal.com

-Al Som-Anya, MBA, President

