

FHA Mortgage Insurance Explained

In many parts of the world, owning a home is a luxury available only to the rich and famous. In the United States, however, government programs have made home ownership a reality for many.

There are only a fortunate few of us who are in the position to pay cash for a home. For this reason, the United States' Federal Housing Administration (FHA) developed FHA mortgage insurance. Backed by the US government, these home loans have become popular sources of consumer credit.

What is the Federal Housing Administration?

As part of the U.S. Department of Housing and Urban Development (HUD), one of the chief purposes of the Federal Housing Administration is to help people obtain financing for their homes. People who could not otherwise afford to own a house are able to become homeowners with the help of FHA mortgages.

How FHA Mortgage Insurance Works

FHA mortgages were created as a means to help people obtain the necessary financing to purchase a home. In every home purchase, the buyer is required to make a down payment, or in other words, pay a certain percentage of the total purchase price up front. FHA mortgage insurance allows the homeowner to make modest down payment, and then obtain a mortgage to pay off the balance of the purchase price.

The FHA doesn't actually lend the money. Banks, credit unions, mortgage companies, savings and loan associations and other lenders provide the mortgage funds. In order for the mortgage to become FHA insured, the Federal Housing Administration must approve the lender. If this qualification is met, the FHA will insure the loan and pay the lender in the event that the homeowner defaults on the mortgage. The protection offered by FHA mortgages allows lenders to be more liberal with their loan terms than the prospective homeowners might otherwise obtain.

Types of FHA Mortgages

There are several types of mortgages that the Federal Housing Administration will insure:

- * Single family dwellings
- * Two, three or four-unit properties
- * Condominiums
- * Houses in need of rehabilitation.

Who Qualifies for an FHA Mortgage?

Almost anyone can obtain an FHA mortgage. The only requirements are a satisfactory credit rating, proof of sufficient steady income to cover the monthly mortgage payments without difficulty, and enough cash to close the loan. If you meet these requirements, you should have no trouble getting approved for an FHA mortgage. Another general requirement is that you will actually reside in the property that you intend to purchase.

There is no set age limit for those borrowing under the FHA program and while sufficient monthly income is an important factor, there is no set income level that a borrower must achieve. The level of income is simply a factor used to determine whether the borrower will be able to repay the mortgage.

For more information on FHA mortgage insurance, visit the Federal Housing Administration website at FHA.com.