The original subprime loan— the FHA mortgage

This year is proving to be a challenging and interesting year in the mortgage industry. With foreclosure rates setting new records, and mortgage companies either scaling back operations or closing altogether, finding the right mortgage loan is more important than ever. Over 60% of subprime adjustable rate loans are scheduled to reset before the end of 2007, and this will only add inventory to the market in the form of additional foreclosures. And, as rehab borrowers are discovering, it is becoming more difficult to find qualified buyers for their properties; as a result, many investors are keeping the properties as rentals or curtailing their rehab efforts.

How can you take advantage of this market without keeping your properties as rentals?

One of the answers is a loan that never went away-a mortgage loan backed by the Federal Housing Administration, or FHA. FHA-backed loans were the original subprime loans. The FHA program made it easier for individuals with less-than-perfect credit or minimal down payments to obtain financing for the purchase of their primary residence. Some facts on the FHA:

- The FHA is not a direct lender. It provides mortgage insurance to banks and mortgage companies making loans to individuals, and is the largest mortgage insurance provider in the world. Since 1934, the FHA has insured over 34 million properties in the United States.
- There are no credit score requirements set forth by the FHA. Individual banks and mortgage companies set these standards, so score requirements can vary by lender. However, the 3% down payment requirement is an FHA guideline, and this down payment can come from the borrower or from other sources.
- The FHA is not funded by taxpayers. Rather, funding is derived from the mortgage insurance premiums paid by FHA borrowers.
- FHA-insured loans can offer both fixed and variable rates, but the variable rates can not increase by more than two points in a calendar year. Unlike many subprime loans, there are no prepayment penalties on FHA-insured loans.
- FHA-insured loans have always been full-doc loans. However, depending on the lender, it is just as easy to obtain an FHA loan as it is a traditional mortgage product.
- FHA-insured loans are generally among the lowest priced loans available, due to the decreased risk taken by the lender.

- FHA-insured loans may be used to purchase or refinance a new or existing 1–4 family home, condominium, or mobile home.

No doc, no income verification, and other programs were created that have ultimately proven to be much riskier than the FHA programs. How can this benefit you? By partnering with a mortgage broker or lender who is comfortable in working with FHA applications, you can find an increased market of qualified buyers for your finished product.

How can I find out more? For more information, contact your ReCasa regional manager or the mortgage broker that you work with. We have been compiling a comprehensive list of mortgage brokers and lenders in the markets we serve that can help our borrowers with both their permanent financing and that of their potential buyers. Additionally, check out http://www.fha.gov for additional information on the FHA and its related programs.

ReCasa Financial Group

ReCasa and our clients—improving America's communities, one house at a time.