(516) 974-2990 rrudra@gorascal.com fundedbyrudra.com @fundedbyrudra

The FHA Loan Guide

How FHA loans work, who they're designed for, and what it really costs to buy with 3.5% down.



Ritwik Rudra, CFA
MORTGAGE STRATEGIST & BROKER

What is it?

An FHA loan is a mortgage insured by the Federal Housing Administration. Because the government stands behind it, lenders can be more flexible about credit scores and down payments.

If your credit score is 580 or higher, you can put down 3.5%. If it's between 500 and 579, you'll need 10%. The whole down payment can be a gift from family, and you don't have to be a first-time buyer. You just have to live in the home.

Usually a good fit if
Your score is somewhere in the 500s or 600s, you haven't saved a big down payment yet, or family is helping you buy.

Maybe not the best fit if
Your credit is strong, since a conventional loan often costs less over time. FHA also can't be used for a second home or a rental.

What documents do I need?

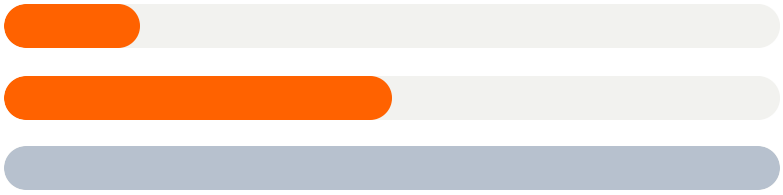
Most of this will look familiar:

- Pay stubs from the last 30 days
- Bank statements from the last 2 months
- A gift letter, if family is helping
- W-2s from the last 2 years
- A photo ID
- Your green card, if you're a permanent resident

Let's run the numbers

Here's the down payment on a $400,000 home. Closing costs are extra, usually 2% to 5% of the price, but FHA lets the seller pay up to 6% of the price toward them.

Down payment on a $400,000 home — Closing costs not included



FHA, 580+ score 3.5% down	**$14,000**
FHA, 500 to 579 score 10% down	**$40,000**
Putting 20% down What many people assume	**$80,000**

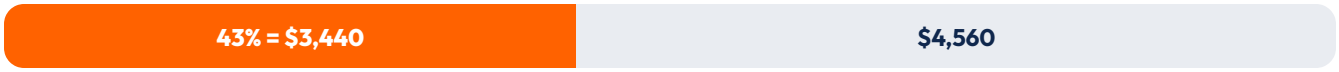
Mortgage insurance

FHA charges an upfront fee of 1.75%, which most people roll into the loan, plus a monthly premium. With less than 10% down, the monthly premium stays until you refinance. With 10% or more down, it ends after 11 years.

Your debt-to-income ratio

Your DTI is all of your monthly debt payments, including the new house payment, divided by your income before taxes. FHA's standard is 43%, and with an automated approval a lot of people get approved closer to 50%.

$8,000 a month in income before taxes Example



All monthly debts, including the new house payment · The rest of your income

Things most buyers don't know

1. **580 is an important number.** At 579 you need 10% down, and at 580 you need 3.5%. On a $400,000 home that's a $26,000 difference, so if you're close, it's worth working on your score before you apply.
2. **The home has to meet FHA's safety standards.** The appraiser looks for things like peeling paint, a leaking roof or no working heat, and those may need to be fixed before closing. Keep that in mind if you're looking at fixer-uppers.
3. **You can get rid of FHA mortgage insurance later.** Once you have 20% equity, refinancing into a conventional loan removes it. It helps to plan for that from the start.

Lesser-known strategies

1. **Pay every two weeks instead of once a month.** Paying half your payment every 2 weeks adds up to 13 full payments a year instead of 12. FHA loans don't have prepayment penalties, so that extra payment goes straight to your balance.

About 6 years
paid off sooner

About $136,000
less interest

Example: $400,000 loan at 7% for 30 years, principal and interest only. Make sure your servicer applies the extra to principal, and don't pay a company a fee to set this up.

2. **Consider a 2 to 4 unit home.** FHA lets you buy one with the same 3.5% down as long as you live in one of the units, and the rent from the others can help you qualify.

30-second recap

- 3.5% down with a 580 score, or 10% down from 500 to 579
- Your whole down payment can be a gift from family
- The seller can pay up to 6% toward closing costs
- DTI standard is 43%, often closer to 50% with an automated approval
- Mortgage insurance usually stays until you refinance
- Paying every two weeks can take years off the loan



Want to see your actual numbers?

A quote takes about 2 minutes and doesn't touch your credit. Once I see your situation, I'll walk you through your options and what each one would actually cost you.

Get a Quote →

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