FHA Loans in 2015: Changes, Requirements, Rate Forecasts and More

What Is an FHA Loan?

The FHA loan program remains one of the most popular financing options for home buyers, especially first-time buyers. But the rules of the game have changed over the last few years. In short, it has become harder to qualify for these loans, and the government is charging higher mortgage premiums than in the past.

We will get to the 2015 guidelines and requirements in a moment. But first, let's answer a common question among first-time home buyers:

What is an FHA loan anyway?

FHA mortgage loans are insured by the federal government. The program is managed by the Federal Housing Administration and its parent organization, the Department of Housing and Urban Development (HUD). The Federal Housing Administration insures lenders against losses that may result from borrower default. This government-provided insurance is the primary difference between FHA and conventional or "regular" home loans.

Down payments are another FHA distinction. Borrowers who use this program can put as little as 3.5% down when buying a house.

These days, many of the banks and lenders that provide home loans in general offer FHA products as well. The program has become much more popular since the housing market crashed, though its popularity has waned a bit over the last two years. These loans are particularly popular among first-time buyers, due to the relatively small down payment mentioned above.

Here's one thing borrowers should know about FHA loan requirements in 2015: Contrary to popular belief, they are not necessarily "easy" to obtain. That may have been true to some extent in the past. But it's not anymore. Let's discuss the reasons why…

FHA Changes: Not an 'Easy' Loan Anymore

There is a longstanding notion that FHA loans are easier to obtain, when compared to a "regular" conventional loan. This is due to the government insurance mentioned above.

There is some truth to this notion. Historically, borrowers who could not qualify for conventional financing have been able to use the FHA program as a last resort. The government backing makes lenders a bit more forgiving, when it comes to borrower qualifications and credentials.

But the qualification “gap” has narrowed over the last two or three years. The reason for this is that the Federal Housing Administration’s capital reserve fund (the money they are required to have on hand) took a huge hit during the housing crisis and subsequent recession. In fact, the FHA went into the red for a while, having no reserve funds at all.

In 2013, the usually self-sufficient agency required a taxpayer bailout of $1.7 billion to cover losses resulting from shaky loans made during the housing collapse. That was the first time in the agency’s 79-year history that it required taxpayer funding to stay afloat.

In the wake of those troubles, the Department of Housing and Urban Development made a series of FHA program changes designed to (A) bolster revenues and (B) reduce future losses. Among the changes were new credit-score rules for borrowers, higher insurance premiums, and reduced limits on maximum loan size. In short, the agency is now requiring higher standards for borrowers, and charging more for FHA loans. These rules will apply to borrowers in 2015 as well (see the guidelines section below).

2015 Guidelines and Requirements at a Glance

FHA guidelines and requirements for 2015 will be very similar to what they are now. No major changes have taken place over the last few months, and none have been announced for the months ahead. That doesn’t mean HUD won’t make additional program changes sometime during 2015. They certainly could. It just means we don’t anticipate anything new for the *foreseeable* future.

Here is an overview of FHA loan requirements and standards for 2015:

- This program is open to all borrowers who meet the minimum eligibility requirements below. It is not limited to first-time buyers, contrary to popular belief.
- All FHA borrowers are required to make a down payment of at least 3.5% of the sale price or the appraised value (whichever is less).
- To qualify for the 3.5% down-payment option mentioned above, borrowers must have a credit score of 580 or higher.
- Borrowers with a credit score between 500 and 579 must put at least 10% down, if they can get approved at all.
- There are debt requirements as well, but these are a bit more lax when compared to the credit scores above. Generally speaking, a borrower’s total monthly debt load should account for no more than 43% of his or her monthly income.
- HUD allows borrowers to have higher debt-to-income ratios if the lender can identify and document “significant compensating factors.” Such factors might include a long history of timely mortgage payments, excellent credit, or significant

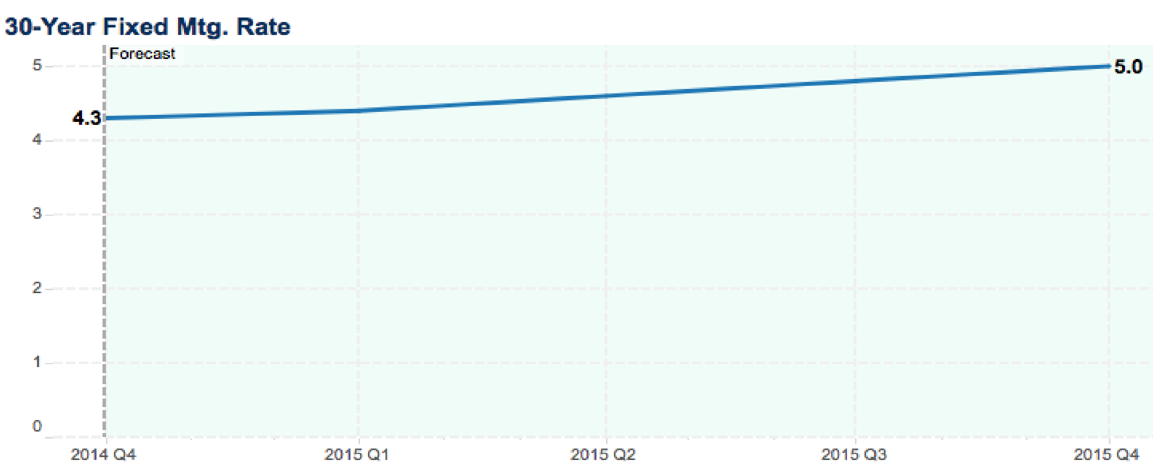
cash reserves. For a complete list of compensating factors for “high-debt” borrowers, refer to HUD Handbook 4155.1, Chapter 4, Section F.

- Borrowers with credit scores below 620, and total debt-to-income (DTI) ratios above 43%, may encounter additional scrutiny during the application and approval process. Borrowers in this bracket may have to undergo manual underwriting. The underwriter will be looking for compensating factors to make up for the low-score / high-debt situation.
- Lenders can impose their own guidelines on *top* of those promulgated by HUD. This is known as an “overlay.” So it’s possible for a borrower to be turned down due to a low credit score (for instance), even though the score meets HUD’s minimum cutoff. There are essentially two sets of requirements — the lender’s, and the government’s.

Note: This is a brief overview of 2015 FHA standards and guidelines. For more information on this subject, refer to FHAhandbook.com or HUD.gov. Additionally, there are exceptions and allowances to many of the requirements mentioned above. Borrowers should not assume they are unqualified based on one or more of these guidelines. The only way to know for sure is to apply for the program.

Mortgage Rate Forecast for 2015

This is the part where we gaze into our crystal ball to conjure an FHA mortgage rate forecast for 2015. Actually, I’m going to defer to a third party on this one. Here is a chart that shows Freddie Mac’s expectations for 30-year fixed mortgage rates, between now and the end of 2015.



Freddie Mac outlook for 30-year mortgage rates

Freddie Mac is the government-controlled corporation that buys and sells mortgage-backed securities. They have been running a weekly survey of lending rates since 1971. The chart above shows their economists’ “best guess” for rate changes over the next four quarters. This chart applies to both FHA and conventional (non-government-insured) products. So it could be viewed as a 2015 forecast for FHA loan rates as well.

If this forecast proves accurate, it means that borrowers should expect gradually rising interest rates between now and the end of next year. Not a spike by any means — but a motivator nonetheless. When you consider that home prices are also expected to rise next year in most U.S. cities, it sends a pretty strong signal to buyers. Postponing a purchase could cost you money.

Disclaimer: The 2015 FHA rate forecast above is based on third-party data and estimations. This outlook does not necessarily reflect the views of the publisher. We make no claims or guarantees about future conditions within the mortgage industry or broader economy.

Source: http://www.homebuyinginstitute.com/news/fha-changes-forecast-and-more-574/
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