

# Doron F. Eghbali Residential Real Estate Law

## [FHA Backed Residential Mortgages to Get Tougher and Costlier](#)

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As of Monday, October 4, 2010, borrowers will have to face more stringent requirements and costlier residential loans backed by Federal Housing Authority (FHA). Let us analyze this further.

### **SOME BACKGROUND**

In the aftermath of the mortgage meltdown and its far reaching ramifications for the economy as a whole, banks fearful of undertaking any risks sought the safety of US government to guaranty their loans. The risk-averse milieu brought about more bank reliance on extending loans mostly backed by the FHA. This development profoundly depleted the FHA resources as it was guaranteeing loans for borrowers with less than optimal credit score and relatively low down payments. Now, the FHA is drastically changing the business practice it promulgated in the past two years or so because of financial constraints and hope the real estate is improving slowly yet steadily.

### **HIGHER CREDIT SCORE, HIGHER INSURANCE PREMIUM, HIGHER DOWN PAYMENT**

The FHA as of Monday, October 4, 2010 would not accept borrowers below 500 credit score for FHA backed loans. In addition, the borrowers with 580 credit score would have to put at least 10% down compared to 3.5% required before.

In addition, the FHA is raising insurance premiums to make up money for relatively less borrowers with less risky loans. The increase is from .5% of the loan to .95% of the loan. The insurance increase is rather substantial as it drastically increases monthly payments over the life of the loan.

### **THE BOTTOM LINE**

First try to improve your credit core, then save money. Only then, when you have showed you are creditworthy and have enough stake in the property, step forward to purchase your house.

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