

What You Need to Know About **PURCHASING A CONDOMINIUM** With an FHA-Insured Mortgage

What is the FHA?

An agency within the U.S. Department of Housing and Urban Development, the **Federal Housing Administration (FHA)** was established to help Americans own homes. By providing lenders with mortgage insurance, the FHA gives them the security they need to lend to buyers who might not be able to qualify for conventional loans. The FHA has helped more than 37 million Americans buy a home since 1934.

What Are The Benefits of an FHA Mortgage?

FHA offers low down payment options, eligibility with less-than-perfect credit, a loan at a reasonable cost and help if there is ever trouble making the mortgage payment. Because an FHA mortgage insures the lender against loss, an FHA mortgage typically has an interest rate that is competitive with the best in the market.

What Are the Steps Involved in the FHA Loan Process?

With the exception of a few additional forms, the FHA loan application process is similar to that of a conventional loan. With new automatic measures, FHA loans may be originated more quickly than before.

For more information about FHA-insured mortgages, visit www.fha.com/condominium

What is FHA Mortgage Insurance?

The FHA insures mortgages offered by banks and other financial institutions. An FHA-insured mortgage is backed by the full faith and credit of the U.S. government.



While FHA does not make the loans, it benefits the homebuyer by providing mortgage insurance which encourages financial institutions to make affordable financing available.



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There Are Several Other Features Worth Knowing About an FHA-Insured Mortgage:

- The homebuyer and the seller, individually or jointly, can pay **closing costs** as agreed to in the sales contract. The seller can contribute up to six percent of the home's price toward the closing costs through a seller's concession.
- There is **no minimum income requirement**. But a buyer must prove steady income for at least two years, and demonstrate that bills have been paid consistently on time.
- A buyer's **entire cash investment** — a down payment of 3.5 percent — can be a gift from a family member, employer, charitable organization or local government entity.
- **Caps on payment and debt-to-income ratios are more generous** than most standard conforming mortgage products. The payment-to-income ratio may not exceed 31% and the debt-to-income ratio may not exceed 43%.
- There are **no prepayment penalties** on FHA-insured mortgages.
- **The FHA program has loan limits** — the maximum amount that can be lent to a home purchaser. The loan limit in the Chicago area is \$365,700. In the Rockford area, the loan limit is \$339,000. In the rest of Illinois, the limit is \$271,050.

Buying a Condo With an FHA Loan

An important part of your condominium search is the financial well-being of the condominium association. The FHA program is concerned with the following questions: Are there adequate funds in the association's account to take care of maintenance and repairs of common areas? Are there adequate reserves to help take care of larger repairs, replacements, etc. in the future? Is the association in good fiscal shape?

If you choose to get an FHA-insured mortgage, there are specific rules regarding the condominium association. FHA and lenders will inquire about the owner-occupancy rate, the association's reserves, and if there are owners who are in arrears with the association assessments. This inquiry is done to enable approval of the association for FHA financing for individual purchasers/loan applicants. FHA approval of the condo association is required in order for you to get an FHA-insured loan.

The condominium building must be primarily residential, contain at least two dwelling units and can be detached, semi-detached, a row house, a walk-up, mid-rise, including those with or without an elevator, or manufactured housing.

For these reasons, you will want to work with an experienced lender who really understands and stays on top of the FHA rules.

Homebuyers often have a lot of questions about getting an FHA-insured mortgage and about the homebuying process in general.



HUD-approved Housing Counseling Agencies provide buyers the opportunity to get the answers they need by meeting with a housing counselor in their community.

To find a counselor in your neighborhood, call **1-800-569-4287**.



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