FHA Loan or Conventional Mortgage?

The Federal Housing Administration (FHA) continues to implement changes in its mortgage loan program which can negatively impact new FHA loans, giving conventional financing a big advantage.

FHA is known for providing the lowest down payment, as well as financing to buyers and existing homeowners with sub-par credit. FHA has recently encountered issues which often results in higher costs, tightened credit standards and new income requirements for new buyers and homeowners.

Over the last couple of years, FHA has been increasing its monthly mortgage insurance premium (MIP) rates which currently boast the highest monthly mortgage insurance of any loan. In addition, FHA has increased their upfront mortgage insurance premium to 1.75%. FHA has also halted its program of canceling MIP charges once an outstanding loan drops to 78% of the original loan amount when borrowing more than 90%. Because of this, conventional mortgages can often be more beneficial to borrowers. For example:

Sales Price	$200,000	Sales Price	$200,000
3.5% Down Payment	$7,000	3% Down Payment	$6,000
Upfront Mortgage Insurance (1.75%)	$3,500	Upfront Mortgage Insurance	$0
Total Loan Amount	$193,325	Toal Loan Amount	$190,000
Interest Rate	4.25%	Interest Rate	4.25%
Base Payment	$984	Base Payment:	$984
Monthly Mortgage Insurance	$142	Monthly Mortgage Insurance	$125
Total Monthly Payment =	$1,126	Total Monthly Payment =	$1,109

In this example the conventional loan offers:

- Monthly savings of $17 for first 99 payments (over 80% loan-to-value)
- Monthly savings $142 after monthly mortgage insurance drops (under 80% loan-to-value)
- Total Life of Loan savings is $38,745

What does this mean for new or existing homebuyers?

- Conventional mortgages can save you money.
- Our 3% borrower down payment option can save you even more![1]

**Results provide sample results only, and are not guaranteed. Scenarios are intended for estimation purposes only and should not be relied on for actual rate quotes, Loan Estimates, or other borrower disclosures. NMLS 509288*

[1]Rates are fixed or variable, based on your final loan amount and finance charges. The actual interest rate and fees available to you will be based on your credit history, property type, loan to value, and may be different than the rates displayed here. Please contact a loan officer for current rates and fees. Rates are subject to change without notice. Additional rates and terms may be available. Mortgages available in Missouri and Illinois only. Available on owner-occupied primary residences. Membership eligibility required. Restrictions apply. Please call 314-892-5400, ext. 11095, for details on all products. ***Fixed Mortgages****: Minimum down payment of 5% (or 3% for EZ-3 Mortgage) required. For example, a $125,000 purchase price with $3,750 (3%) down payment and $121,250 financed at 4.00% fixed interest rate would result in a monthly payment of $734.75 for 240 months. Sample payment only includes principle and interest.* ***Adjustable-Rate Mortgages:*** *Minimum down payment of 5% (or 3% for EZ-3 Mortgage) required. Variable-rate loans have the possibility for the interest rate and payment to increase or decrease. For example, the 5/1 ARM is an adjustable-rate mortgage amortized over a thirty (30) year period. For the first five (5) years the loan is fixed. Following the initial fifth (5th) year of the loan, the interest rate may adjust by two percent (2%) every one (1) year thereafter with a lifetime cap of no more than six percent (6%) over the initial note rate.*

The interest rates used in the foregoing examples are based on current market rates, are for purposes of example only and are not meant to be relied upon. This is not a credit decision or a commitment to lend. Depending on loan guidelines, mortgage insurance may be required. If mortgage insurance is required, the mortgage insurance premium could increase the annual percentage rate ("APR") and the monthly mortgage payment. APR reflects the effective cost of your loan on a yearly basis, taking into account such items as interest, most closing costs, mortgage insurance, discount points (also referred to as "points") and loan-origination fees.

Neighbors Credit Union: NMLS #509288