

The Ultimate FHA Home Loan Guide

Your Path to Financial Growth,

Presented by Amy DeBusk



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MORTGAGE MADE EASY ACADEMY



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Welcome Future Homeowners

FHA loans lower barriers for homebuyers with flexible credit and down payment guidelines. Backed by the Federal Housing Administration and supported by Fannie Mae's Selling Guide, these loans open the door to homeownership—even for borrowers with lower credit scores.

Credit Requirements & Manual Underwriting

FHA loans allow borrowers to use manual underwriting, rather than relying solely on automated credit scores. Here's what you need to know:



- **Automated Underwriting (Fannie Mae DU / FHA TOTAL)**
- Requires a **minimum FICO score of 620** for a 3.5% down payment.
- Provides a streamlined process and faster approvals.

Manual Underwriting (HUD Handbook 4000.1)	
Criteria	Details
Minimum FICO Score	No minimum required; scores as low as 500 may be allowed in special cases
Compensating Factors	Strong reserves (e.g., 6 months of cash reserves)
Debt-to-Income Ratios	Front-end ≤ 31%, Back-end ≤ 43%
Employment History	At least 2 years in the same field or with the same employer
Housing Payment History	12+ months of on-time rent or mortgage payments
Bankruptcy/Foreclosure History	No recent events; 2–3 year waiting period applies

Manual Underwrite Requirements	
Requirement	Details
Full Credit Report Review	Must evaluate payment history, collections, and charge-offs
Compensating Factors Documentation	Include:
	– Cash reserves (liquid or retirement accounts)
	– Residual income above minimum thresholds
	– Minimal increase in proposed housing payment vs. current rent
Derogatory Credit Explanation	Written statements explaining past credit issues and how borrower plans to avoid recurrence
Underwriter Summary	Must justify why the loan should be approved despite low credit scores, referencing all compensating factors

Manual underwriting allows a holistic look at your finances, giving borrowers with minor credit challenges a path to ownership.

Eligibility, Down Payment & Mortgage Insurance

FHA loans are designed to make homeownership more accessible—especially for first-time buyers. Here's what you need to know about eligibility, property types, and required mortgage insurance:

- **Down payment:** 3.5% for scores ≥ 580 ; 10% for scores 500–579.
- **Eligible properties:** Single-family homes, FHA-approved condos, PUDs, 2–4 unit owner-occupied.
- **Primary residence** requirement: FHA loans only finance homes you will live in.

Mortgage Insurance Premiums

- **Upfront MIP:** 1.75% of loan amount (can be financed).
- **Annual MIP:** 0.45%–1.05% of loan balance, paid monthly.

Why Choose FHA Manual Underwriting?

FHA manual underwriting offers a more personalized path to homeownership—especially for borrowers with unique credit situations. Here's why it stands out:



- Flexible approval for credit scores as low as 500
- Comprehensive financial review, where strong factors can balance out past credit issues
- No reliance on automated systems, making approvals more accessible and human-centered

Perfect for buyers who don't fit the standard lending mold but are ready to purchase responsibly.

FHA Loan: Lesser-Known Insights You Should Know

FHA loans come with some powerful and often overlooked advantages that can make your homebuying experience easier, more flexible, and more affordable. Here are a few highlights:

Feature	Details
No Prepayment Penalty	Pay off your mortgage early without penalties—save on interest and pay off faster.
Unlimited Gift Funds	100% of your down payment and closing costs can come from gifts—family, employer, or nonprofit—with proper documentation. (HUD 4000.1)
Appraisal Waivers	In select cases, FHA may waive the full appraisal (with strong credit, equity, and low LTV), helping speed up the closing process. (Fannie Mae B2-1.2-02)
Energy Efficient Mortgage (EEM)	Add up to 5% of the home’s value to your loan for energy upgrades—like solar panels, new windows, or insulation—without taking a separate loan.

How FHA’s Energy Efficient Mortgage (EEM) Works

The FHA EEM program lets you roll the cost of energy-saving improvements into your mortgage—boosting your home’s efficiency without needing a second loan. Here’s how the process works:

- Get an energy assessment to identify eligible upgrades.
- Add improvements to your purchase contract with estimated costs.
- Appraisal notes upgrades, but base value stays the same.
- Close with the EEM financed—one loan covers both home and improvements.

FHA Spot Approvals for Condominiums

When a condominium project loses FHA approval or isn't on the approved list, you can still finance an individual unit via FHA Spot Approval (also called lender recertification):

Unit Eligibility Review

- The lender submits a questionnaire and limited project documents to HUD for review.
- HUD verifies basic project health: owner-occupancy ratio, no pending special assessments, and adequate insurance.

HUD HQ Decision

- Typically completed within **7–10 business days**.
- If approved, only that one unit is eligible for FHA financing.

Benefits of Spot Approval

- **Access to FHA financing** when whole-project recertification is impractical.
- **Saves time and cost** compared to full project approval.

Flexible for small or unique projects, such as a newly converted building.

Requirements to Qualify

- At least **51% owner-occupancy** in the project remains intact.
- No more than **15%** of units over 60 days delinquent on HOA dues.
- Adequate **reserve funds** in the HOA budget.

Spot approvals let buyers secure FHA financing for a single unit in otherwise ineligible condos—unlocking more homebuying opportunities.

Rental Income for Qualification

FHA allows you to use rental income from a roommate or a portion of a multi-unit property to help qualify for your loan.

Rental Income from a Roommate

- FHA requires at least **12 months of documented rental history** with your roommate before using this income.
- Use a **verifiable lease agreement** showing the rent amount, term, and start date.
- Provide proof of rent receipt, such as **bank statements** or canceled checks for the past year.
- **75%** of this rental income may be used in your qualifying calculations to account for potential vacancy and maintenance costs.

Rental Income from a Duplex (2–4 Unit Properties) Rental Income from a Duplex (2–4 Unit Properties)

- If you buy a duplex and occupy one unit, you can use the **projected rental income** from the other unit(s).
- Lenders require an **FHA Form 1007** (Single Family Comparable Rent Schedule) or comparable rent schedule form.
- **75%** of the gross rental income is added to your qualifying income.
- The unit you occupy must be **owner-occupied** and documented as your primary residence.

Using rental income can increase your qualifying capacity, letting you purchase a larger home or qualify with tighter personal finances.

Frequently Asked Questions (FAQs)

Here are some of the most common FAQs about FHA loans to help you better understand how the process works.

Q: Can I use gift funds for my down payment and closing costs?

A: Yes! FHA allows 100% gift funds from family, employers, or approved nonprofit organizations. Just provide a gift letter with donor information and no repayment terms required.

Q: What happens if my credit score is below 580?

A: With a credit score between 500–579, you can still qualify for an FHA loan with a 10% down payment, subject to manual underwriting and compensating factors.

Q: Is there a prepayment penalty on FHA loans?

A: No. FHA loans have no prepayment penalties, so you can pay off your mortgage early without extra fees.

Q: How long is the mortgage insurance required?

A: For loans with down payment <10%, annual MIP remains for the life of the loan. For down payments ≥10%, MIP lasts 11 years.

Q: Can I refinance an FHA loan without an appraisal?

A: Yes. Through the **FHA streamline refinance**, if you've made 12 on-time payments and the new rate reduces your principal and interest by at least 5%, no appraisal or credit review is needed.

Q: What qualifies as energy-efficient improvements under EEM?

A: Eligible improvements include solar panels, high-efficiency heating/cooling, insulation, energy-efficient windows, and water-saving systems. Up to 5% of the home's value can be financed.

Contact Amy DeBusk Home Loans

We understand the unique guidelines of FHA loans, know how to maximise your benefits, and are committed to helping you save money every step of the way. From pre-approval to closing, we'll be by your side to make homeownership simple, affordable, and stress-free.

Let us serve you as you've served us.

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