LOAN PROGRAM GUIDE

FHA Loan Guide

How FHA loans work, how credit score affects the down payment, what FHA mortgage insurance costs and how long it lasts, and what to gather.

Reviewed November 18, 2026 against the sources listed at the end of this guide.

Who might consider an FHA loan

FHA loans are insured by the Federal Housing Administration, part of the U.S. Department of Housing and Urban Development (HUD). Because FHA insures the lender against loss, FHA rules are more flexible in some areas than conventional loans. An FHA loan may fit if you:

- Have a smaller down payment, around 3.5%
- Have a credit score that is lower than conventional pricing rewards, or a thinner credit history
- Have higher debts compared with your income
- Are buying a home you will live in as your primary residence, including a two- to four-unit property where you live in one unit

FHA loans are not for second homes or investment properties.

How it works

Credit score and down payment

HUD ties the maximum loan-to-value ratio to your minimum decision credit score:

Minimum decision credit score	Maximum financing	Minimum down payment on a purchase
580 or higher	Maximum financing	3.5%
500 to 579	90% loan-to-value	10%
Below 500	Not eligible for FHA financing	n/a

These are FHA's minimums. Many lenders set higher score requirements, called "overlays," which is one reason it pays to work with a broker who can compare lenders.

Loan limits

FHA sets maximum loan amounts by county. In Los Angeles County the 2026 limit for a one-unit home is $1,249,125. Limits are higher for two- to four-unit properties and differ elsewhere. You can check any county with HUD's FHA mortgage limits lookup.

FHA mortgage insurance

Every FHA loan has two kinds of mortgage insurance premium (MIP):

- **Upfront MIP:** 1.75% of the base loan amount. It is usually added to the loan rather than paid in cash.

- **Annual MIP:** paid monthly with your mortgage payment. For most 30-year FHA loans at standard loan amounts, it is 0.50% of the loan per year when you put down 5% or more, and 0.55% when you put down less than 5%. Larger loan amounts and shorter terms have different rates.

How long you pay annual MIP depends on your starting loan-to-value:

Down payment	How long annual MIP lasts
Less than 10% (loan-to-value above 90%)	The life of the loan
10% or more (loan-to-value of 90% or less)	11 years

Many FHA borrowers later refinance into a conventional loan once they have enough equity, which can remove mortgage insurance. Whether that makes sense depends on rates at the time.

> **Hypothetical example.** Daniel buys a $700,000 condo with 3.5% down ($24,500), so his base loan is $675,500.
>
> - Upfront MIP: 1.75% × $675,500 = $11,821.25, added to the loan, for a total loan of $687,321.25.
> - Annual MIP: about 0.55% × $675,500 ÷ 12 = roughly $310 a month at the start, and it lasts the life of the loan because he put down less than 10%.
>
> HUD calculates annual MIP on the loan balance, so the monthly amount drifts down over time. The figures are illustrations only.

Other features worth knowing

- **Gifts.** FHA allows down payment gifts from family and certain other sources, with documentation.
- **Debts and income.** FHA can allow higher debt-to-income ratios when the rest of the file is strong. Lenders use FHA's automated underwriting system and its rules to decide.
- **Property standards.** The FHA appraisal also checks that the home is safe and sound. Peeling paint, missing handrails or a broken water heater can need repair before closing.
- **Condos.** The condominium project generally needs to meet FHA approval rules. Ask early if you are buying a condo.

FHA compared with conventional

	FHA	Conventional
Smallest down payment	3.5% (580+ score)	3% for certain programs
Mortgage insurance	Upfront and annual; often lasts the life of the loan	Monthly PMI; can be cancelled as you reach 20% equity
Credit flexibility	More flexible	Pricing rewards higher scores
Property use	Primary residence only	Primary, second home or investment

The cheaper option depends on your credit score, down payment and how long you will keep the loan. We can price both side by side.

What to gather

- [ ] Pay stubs for the last 30 days and W-2s for the last two years
- [ ] Federal tax returns for the last two years if you are self-employed or have other income
- [ ] Two months of statements for each bank and retirement account
- [ ] A photo ID and Social Security number for each borrower
- [ ] Gift letter and proof of transfer, if applicable
- [ ] Explanations for late payments, collections or past bankruptcy or foreclosure, with dates
- [ ] For condos: the homeowners association's name and contact information

Questions to ask

- What credit score does your lender require, and does it differ from FHA's minimum?
- What will my upfront and monthly mortgage insurance be, and how long will I pay it?
- Would a conventional loan cost less for me, now or after a refinance later?
- Is the condo or property I'm considering eligible for FHA financing?
- What repairs might the FHA appraisal require, and who pays for them?

Your next step

Tell us what you are trying to do and we will tell you, plainly, which options fit and what to gather. There is no cost to talk it through.

Start a free loan evaluation: journeymac.com/evaluation

Call: (626) 716-0585 **Email:** info@journeymac.com

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This guide is general education, not a loan offer, a rate quote or legal, tax or financial advice. Program rules change and lenders add their own requirements; confirm details for your situation before you act. Examples marked "hypothetical" are illustrations only.

Sources

Reviewed November 18, 2026. Program rules change; check the current version of each source.

1. HUD: Mortgagee Letter 2026-11 (minimum decision credit score and loan-to-value table)
   www.hud.gov/sites/default/files/hudclips/documents/2026-11hsgml.pdf
2. HUD: Mortgagee Letter 2023-05 (annual mortgage insurance premium reduction)
   archives.hud.gov/news/2024/2023-05hsgml.pdf
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4. HUD: FHA mortgage limits lookup
   entp.hud.gov/idapp/html/hicostlook.cfm
5. CFPB: Review your Loan Estimates
   www.consumerfinance.gov/owning-a-home/compare/review-loan-estimates