HomeReady: Several Big Advantages Over FHA

By: Ted Rood | Fri, Aug 31 2018, 4:37 PM

Fannie Mae's **3% down payment** HomeReady program was rolled out in 2016. HomeReady has numerous advantages over FHA loans (historically the most common "low down payment" option) and other conventional loans. We'll compare them in this series. Today, let's look at mortgage insurance costs:

- **No upfront mortgage insurance premium:** While both HomeReady and FHA have low down payments (3% for HomeReady, 3.5% for FHA), FHA loans add an upfront mortgage insurance premium (UFMIP) of 1.75% of the amount borrowed to buyers' loan balances at closing. On a $200,000 purchase, that's $3377. Think that's not a significant cost? You don't recoup it until you've made 12 payments! It also means that half your down payment goes to UFMIP costs, versus the equity in your home.

- **Lower monthly PMI payments:** While it's true that FHA's mortgage insurance costs aren't score based (Fannie Mae's are), for borrowers with scores over 680, HomeReady has lower monthly PMI costs ($124 HomeReady versus $137 FHA). HomeReady PMI costs are also lower than other conventional 3% down programs. Just how much lower? For our 680 score borrower, the PMI cost for a conventional 3% down loan is $102 more than for the same scenario with a HomeReady loan! Note, for lower scores, HomeReady mortgage insurance costs can be higher than FHA loans.

- **Cancelable mortgage insurance:** FHA revised their MIP guidelines in June 2013. Previously, borrowers' mortgage insurance premiums (MIP) were removed once they reached 20% equity (based on initial sales price), just as on conventional loans. On loans originated after June 3, 2013, however, **FHA charges MIP for the entire life of the loan**. If the thought of paying PMI for multiple years irks you, just imagine paying it for 30 on the same loan! On a 3% down HomeReady loan (and other conventional loans), the **PMI can be removed once you reach 20% equity** (based on initial sales price), roughly 9 years of payments. Making extra principal balance payments can also eliminate PMI faster, unlike FHA loans.

Sadly, many realtors (and some loan officers!) aren't well versed on recent mortgage program changes. If you're being told "you need 20% down or your only option is an FHA loan", "it takes at least a 720 credit score for a conventional loan", or "low down payment programs are only for first time home buyers", you're getting bad advice. Time to seek answers elsewhere!

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