

Mortgage Choices

There are basically three mortgage categories employed in a home purchase: FHA, VA, and conventional. Within these categories, there are many variations. Your lender's role is to counsel you regarding your mortgage options.

An FHA loan is a mortgage insured by the Federal Housing Administration (FHA), administered by the Federal Department of Housing and Urban Development (HUD). FHA will guarantee the lender against loss if the buyer does not pay the investor back.

Buyers find FHA loans attractive because they require as little as 3 percent down payment. FHA qualifying guidelines are also more lenient for the buyer. This makes them more attractive for a buyer who has a heavier debt load.

VA loans are mortgages offered only to veterans. To obtain a VA loan, the veteran must have a Certificate of Eligibility verifying the veteran's active duty status since September 16, 1940 and discharge papers from the service. VA loans require no down payment, have limited closing costs, and sometimes have lower interest rates. The Veteran's Administration (VA) will guarantee the lender against loss if the buyer does not make payments on the loan.

Conventional loans are mortgages which conform to standards set forth by the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac). Investors remain at risk up to 80 percent of the value of the property. The amount borrowed above 80 percent of the home value is insured against loss by private mortgage insurance.

There are many different mortgage products within these three categories. Learn more about the various mortgage products.