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## FHA changing mortgage insurance premiums again

On Oct. 1, the Federal Housing Administration will have to stop basing mortgage insurance premiums on a buyer's credit and potential risk of default.

But for many buyers who want the FHA to guarantee their loan, that means they'll wind up paying more for the insurance.

Most banks and mortgage companies offer [FHA-backed loans](#). They're easier to qualify for than most conventional home loans and the federal government guarantees repayment, so the lender feels safe and can offer lower rates.

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The FHA used to charge most borrowers an up-front premium that was 1.5% of the loan amount to ensure that the mortgage would be repaid.

On July 14, the FHA started using a new system that charged up-front premiums of 1.25% to 2.25%, based on borrowers' credit scores and down payment or equity.

However, a stipulation in the housing bill Congress approved in late July requires the FHA to return to a premium system that isn't based on risk until at least October 2009.

So on Oct. 1, the FHA will return to a flat rate for all borrowers, but it will be 1.75% of the loan amount, not the previous 1.5%. That means the premium for a \$200,000 loan would be \$3,500 instead of \$3,000.

The annual premium will continue to be 0.5% of the outstanding balance of the loan, divided into 12 monthly payments and added to whatever you owe in principal and interest.

Before you buy, be sure to use our calculator to determine [how much you can afford to spend on a home](#).

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