If you are considering buying your first home and have no or low credit, you may still be able to procure financing. This article will explain five loan programs for first-time buyers. Read on to find out whether you qualify!

Federal Housing Administration Loan



First-time homebuyers and those with no or low credit may be eligible for a loan that is guaranteed by the Federal Housing Administration (FHA). The FHA program was created in 1934 to allow lenders to relax certain criteria to broaden the pool of eligible home loan borrowers.

Borrowers must have a steady income and provide proof of employment for the last two years to qualify for an FHA loan. That proof may take the form of pay stubs, income tax returns, and bank statements.

Currently, those with a credit score of at least 580 can qualify for an FHA loan with as little as 3.5% or the purchase price as a down payment. Those with a credit score between 500 and 579 will still qualify for an FHA loan but must come up with 10% of the purchase price as a down payment. All borrowers regardless of credit score must have less than a 43%

debt-to-income ratio.

While the FHA makes mortgages available to more people, it imposes more requirements on the property purchased. For example, the property must be inspected and meet certain standards. It also must appraise for the purchase price. The borrower must certify that the property will be their primary residence. The FHA will not guarantee loans to purchase rentals or vacation homes.

There is an additional cost for those with low or no credit to procure a loan through the FHA. The FHA requires that borrowers purchase and maintain mortgage insurance. Mortgage insurance pays the loan should the borrower default.

Veterans Administration Loan

A borrower who is serving or has served in any branch of the military and their eligible spouses may qualify for a home loan through the Veterans Administration (VA).

Like FHA loans, VA loans are provided by private lenders such as banks and mortgage companies. The VA guarantees a portion of the loan, enabling the lender to provide eligible borrowers with more favorable terms such as a lower interest rate or a low or no down payment.

Home Purchase Loans through the VA

VA-guaranteed loans are available for homes for a service member's or a veteran's occupancy, as well as for the occupancy of an eligible spouse and/or dependent of active duty service members.

To be eligible for a VA home purchase loan, a borrower must have a satisfactory credit score, sufficient income to meet their mortgage payments and other monthly obligations, and a valid Certificate of Eligibility (COE). Borrowers can apply for a COE here.

VA Interest Rate Reduction Refinance Loan

An Interest Rate Reduction Refinance Loan (IRRRL), also called a Streamline Refinance Loan, helps current VA borrowers obtain a lower interest rate by refinancing their existing VA loan.

Native American Direct Loan Through the VA

The Native American Direct Loan (NADL) Program helps eligible Native American Veterans finance the purchase, building, or renovation or improvement of homes on Federal Trust Land. NADL also can reduce the interest rate on an existing VA loan for eligible Native American Veteran borrowers.

Adapted Housing Grants through the VA

The VA's Adapted Housing Grants help veterans with a permanent and total disability incurred while in service to purchase, build, or adapt an existing home to assist them in living with their disability more independently. Common modifications to homes include building ramps and widening doorways to accommodate wheelchairs.

In 2021, veterans with qualifying service-connected disabilities can get up to $100,896 through a **Specially Adapted Housing Grant**. Qualifying injuries include:

- The loss or loss of use of more than one limb
- The loss or loss of use of a lower leg;
- Blindness in both eyes (with 20/200 visual acuity or less)
- Certain severe burns
- The loss or loss of use of one lower extremity (foot or leg) causing the inability to walk without the help of braces, crutches, canes, or a wheelchair

Only 120 veterans and service members can qualify for an Adapted Housing Grant based on the loss of one extremity each fiscal year. Those who apply but are turned down because the quota was met are encouraged to reapply the following year.

U.S. Department of Agriculture Loan

According to David Offen, Esq., bankruptcy lawyer in Philadelphia, "The USDA Rural Development Guaranteed Housing Loan Program was created in 2017 to develop, maintain, and occupy eligible rural properties. Urban properties are not eligible, but there may be some opportunity in some suburban areas."

The USDA issues mortgages to low- and very-low-income applicants purchasing eligible properties at interest rates as low as 1%. The income threshold for eligibility for direct loans from the USDA varies by region.

The USDA also guarantees mortgages issued by participating local lenders, similar to the way the FHA and VA guarantee home loans. The interest rate will be low as will the required down payment, however, those putting little to no money down will have to purchase and maintain mortgage insurance.

Federal Home Purchase and Renovation Loans

There are four federal programs that allow borrowers, even first-time home buyers, to extend the amount they could otherwise borrow by the amount needed to renovate or improve the property.

The Energy Efficient Mortgage Program

The Energy Efficient Mortgage Program (EEM) allows a borrower to borrow more to purchase a home with energy-saving upgrades and green renovations.

203(k) Loans backed by the Federal Housing Administration

The FHA backs loans to borrowers who want to purchase a fixer-upper. 203(k) Loans are guaranteed in the amount the property will be worth once improvements have been made.

CHOICE Renovation Loan

Guaranteed by Freddie Mac, this conventional loan program allows borrowers to finance both the purchase and renovation of a property with a low down payment.

HomeStyle Loan

This is a conventional loan offered through Fannie Mae to finance the purchase of a fixer-upper as well as needed improvements with just 3% down for first-time buyers.

Visit the websites of the programs you may be eligible for, and talk with a local lender. Obtaining financing through one of these programs may allow you to purchase the home of your dreams.