

## Where Does the FHA Get All Their Money?

Have you heard of an FHA loan? If so, you might be thinking that the FHA, which is the Federal Housing Administration, gives out these loans, but this is not the case. In fact, the FHA does not actually provide loans to anyone so it is not a matter of where they get their money. Are you totally confused now? Don't worry! Your question is a common one and one that is also easily explained if you understand where these loans actually come from.

### The FHA Loan Explained

When you apply for an FHA loan you are not actually asking the Federal Housing Administration for a loan. When you apply for one of these loans you are actually asking a FHA approved lender for their financial help. This lender works with the FHA to determine if you are worth the risk of lending money to. If the FHA agrees that you are worth the risk they will insure the lender against default.

To break this down even more, there are lenders that work with the Federal Housing Administration. When the lender is working with a borrower, such as yourself, that does not have the money for a large down payment or does not have the best credit the lender goes to the FHA to see if they will insure the loan. If the borrower meets all of the requirements of the FHA they will insure the purchase price of the house. This is a good thing for the lender because they can lend to you, or people like you, without worrying about whether or not you will default.

This is a good thing for the borrower too, because while they may not have been able to qualify for conventional loan programs they can qualify for these programs because the FHA is assuring the lender that they will not be out of the purchase price of the home if the borrower defaults. This is good from a federal perspective as well because when people are able to buy homes it shows that the economy is doing well, it's a good thing for the lender because they are making money, and it's a good thing for the borrower because they are able to buy a home.

As you can see, the FHA doesn't really have to worry about having all their money because they aren't the ones that are providing the loans. Of course, if a borrower defaults then they have to pay the lender for the remaining principal balance on the home, but usually this isn't the full price that the home was usually sold for and a good deal of the time the borrowers don't default on the mortgage at all, proving that the risk was worth it.

As you can see, the FHA loan is a good thing all around. Now that you understand how the FHA loan works and why they are so popular you may have a better understanding of your options and realize why you were able to qualify for this type of loan when you are not able to qualify for other types of loans. If you have been told that you cannot qualify for conventional loans, why not look into one of these loans that are insured by the FHA?

### About the Author

Get more information about [FHA home loan](#) as well as expert advice regarding bad credit visit our expert source at: <http://www.refinance.com/>

Source: <http://www.articletrader.com>