DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: February 14, 2011

To: All Approved Mortgagees
All FHA Roster Appraisers

Mortgagee Letter 2011-11

Subject

FHA Refinance Transactions

Purpose

This Mortgagee Letter clarifies and updates existing guidance to mortgagees concerning refinance transactions for FHA insurance.

Effective Date

The effective date for this guidance is stated in **bold type** at the beginning of each section.

Affected Topics

The topics in this Mortgagee Letter clarify existing guidance on all FHA refinancing. HUD will integrate these changes into the FHA Single Family On-Line Handbooks shortly. Affected topics are:

HUD 4155.1, Mortgage Credit Analysis for Mortgage Insurance
HUD 4155.1.2.B.4
HUD 4155.1.2.B.6.a
HUD 4155.1.3.A.1.h
HUD 4155.1.3.C.3.a
HUD 4155.1.6.C
Mortgagee Letters
2004-44
2008-40
2009-32
2010-19

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All Refinances – Current Status of the Refinanced Mortgage

This is clarification of existing guidance and is effective immediately. Mortgagors must be current on the mortgage being refinanced for the month due **prior** to the month in which they close the refinancing and for the month in which they close. For example, if the mortgagor is closing on April 8, the mortgagor must have paid the March payment within the month of March. The mortgagor must make the April payment by closing. The mortgagor has the option to make the April payment at the beginning of the month, or may include the April payment in the payoff amount at closing.

This Mortgagee Letter clarifies the first bullet point of the paragraph entitled **Additional Underwriting and Eligibility Criteria** in Mortgagee Letter 2008-40, which states that the mortgage being refinanced must be current for the month due, and is now consistent with the HUD Handbook 4155.1.3.A.1.h.

All Refinances – Subordinate Liens

This is a clarification of existing guidance and is effective immediately. If there is an existing subordinate lien on the property, such as a Home Equity Line of Credit (HELOC), the entire lien must be subordinated at refinance. For the calculation of the Combined Loan to Value (CLTV) ratio, the mortgagee must use the maximum accessible credit limit of the existing subordinate lien.

All Refinances – Mortgagor Occupancy of Former Investment Property

This is new guidance and will be effective for all case numbers assigned on or after 60 days from the date of this Mortgagee Letter. The table below describes policy guidance on the maximum mortgage amount available for mortgagors who re-occupy their investment property securing the mortgage which is being refinanced.

Occupancy of Former Investment Property	Eligible Financing
12 months or more prior to the loan application date of the refinancing mortgage	Maximum financing at the same level as an owner-occupant
Less than 12 months prior to the loan application date of the refinancing mortgage	Rate-and-term refinancing only (no streamline allowed), with an LTV not to exceed 85 percent

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All Refinances – Three and Four Unit Properties

This is new guidance and will be effective for all case numbers assigned on or after 60 days from the date of this Mortgagee Letter. HUD Handbook 4155.1.2.B.4, which discusses purchase transactions involving three and four unit properties, also applies in its entirety to **all refinance transactions** of three and four unit properties.

Streamline Refinances – Net Tangible Benefit

This is both new guidance and a clarification of existing guidance and must be implemented no later than 60 days from the date of this Mortgagee Letter. This Mortgagee Letter **rescinds and replaces** paragraph I.C of Mortgagee Letter 2009-32 and its subsequent incorporation in HUD Handbook 4155.1.6.C.5.a, which defined "net tangible benefit" in a streamline refinance transaction as, among other things, a reduction to the principal, interest, taxes, and hazard insurance (PITI). This new guidance bases the calculation of the net tangible benefit on the principal and interest (P&I) and Mortgage Insurance Premium (MIP). The purpose of this change in guidance is to allow mortgagors who can reduce their P&I and MIP by 5 percent to do a streamline refinance, even if they have an increase in taxes and insurance, because mortgagors must pay taxes and insurance regardless of whether they refinance. This will allow more mortgagors to qualify for a streamline refinance, increasing their ability to repay their mortgages.

The mortgagee must determine that there is a net tangible benefit to the mortgagor as a result of the streamline refinance transaction, with or without an appraisal. "Net tangible benefit" is defined as:

- A 5 percent reduction to the P&I of the mortgage payment plus the annual MIP, **or**
- Refinancing from an Adjustable Rate Mortgage (ARM) to a fixed rate mortgage.

Note: Reducing the term of the mortgage, in and of itself, is **not** a net tangible benefit. Also, when refinancing **to** a hybrid ARM, mortgagees must treat the new hybrid ARM as a fixed rate mortgage. The following table defines the **permissible** minimum thresholds in different refinance situations and outlines what is new and existing guidance.

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Streamline Refinances – Net Tangible Benefit (continued)

To / From	Fixed Rate	One-Year ARM	Hybrid ARM
Fixed Rate	Reduction of at least **5 percent** of P&I and MIP (**new guidance**)	New interest rate at least **2 percentage points** below the current interest rate of the fixed rate mortgage (**existing guidance**)	Reduction of at least **5 percent** of P&I and MIP (**new guidance**)
One-Year ARM	New interest rate no greater than **2 percentage points** above the current interest rate of the ARM (**existing guidance**)	Reduction of at least **5 percent** of P&I and MIP (**new guidance**)	New interest rate at least **2 percentage points** below the current interest rate of the ARM (**existing guidance**)
Hybrid ARM During Fixed Period	Reduction of at least **5 percent** of P&I and MIP (**new guidance**)	New interest rate at least **2 percentage points** below the current interest rate of the ARM (**existing guidance**)	Reduction of at least **5 percent** of P&I and MIP (**new guidance**)
Hybrid ARM During Adjustable Period	New interest rate no greater than **2 percentage points** above the current interest rate of the Hybrid ARM (**existing guidance**)	Reduction of at least **5 percent** of P&I and MIP (**new guidance**)	New interest rate at least **2 percentage points** below the current interest rate of the Hybrid ARM (**existing guidance**)

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Streamline Refinances – Certifications and Verifications

This is new guidance and must be implemented no later than 60 days from the date of this Mortgagee Letter. This Mortgagee Letter partially rescinds the policy in HUD Handbook 4155.1.6.C.1.h (originally published in Mortgagee Letter 2009-32, Section I.D), which required mortgagees to certify that the mortgagor was employed and had income at the time of loan application, and further, did not allow mortgagees to use an abbreviated Uniform Residential Loan Application (URLA). Effective no later than 60 days from the date of this Mortgagee Letter, mortgagees may use an abbreviated version of the URLA **only** on non-credit-qualifying refinance transactions. In an abbreviated URLA, mortgagees are not required to complete sections IV, V, VI, and VIII(a) through VIII(k), provided all other required information is captured. FHA has implemented other changes to non-credit-qualifying streamline refinance transactions, such as a 6-month seasoning requirement, an acceptable payment history, and a maximum insurable loan balance which sufficiently offsets any additional risk.

This Mortgagee Letter modifies the policy in HUD Handbook 4155.1.6.C.1.h (originally published in Mortgagee Letter 2009-32, Section I.H) which eliminated the use of the abbreviated URLA in all refinance transactions.

Note: The following existing guidance from HUD Handbook 4155.1.6.C.3.a (originally published in Mortgagee Letter 2009-32, Section I.D), is still in effect. If assets are needed to close, the Mortgagee must verify and document those assets. Also, the Mortgagee must still include a payoff statement in the case binder.

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Streamline Refinances – Use of TOTAL Scorecard

This is new guidance and must be implemented no later than 60 days from the date of this Mortgagee Letter. FHA no longer requires mortgagees to certify employment and income on streamline refinance transactions. As a result, mortgagees do not have sufficient data to score streamline refinances through Technology Open to Approved Lenders (TOTAL) Scorecard. Additionally, TOTAL Scorecard was never intended to be used for streamlines and the results are not considered valid. Therefore, mortgagees **must not** use TOTAL Scorecard on streamline refinance transactions. If the mortgagee **inadvertently** uses TOTAL, it must **not** enter "ZFHA" as the underwriter in FHA Connection. Instead, the mortgagee must use its Direct Endorsement (DE) underwriter designation, and the DE underwriter must sign and use his or her Computerized Home Underwriting Management System (CHUMS) identification number on page 3 of the HUD 92900-A, and page 1 of the FHA Loan Underwriting and Transmittal Summary. This Mortgagee Letter rescinds Mortgagee Letter 2010-19 in its entirety, as well as the paragraph of Mortgagee Letter 2004-44 entitled **Streamline Refinances Underwritten by TOTAL**.

Non-Credit-Qualifying Streamline Refinances – Maximum Insurable Loan Balance

This is new guidance and must be implemented no later than 60 days from the date of this Mortgagee Letter. As a means of controlling risk to FHA's Insurance Fund, mortgagees **must not** use an appraisal to increase the insurable mortgage balance beyond the sum of the outstanding principal balance and the new Up-Front Mortgage Insurance Premium. The mortgagee may not add closing costs, discount items, prepaid items, or other financing costs to the new loan balance. Mortgagees may only increase the insurable balance beyond the sum of the outstanding principal balance and the new Up-Front Mortgage Insurance Premium by using a credit-qualifying refinance with an appraisal. This Mortgagee Letter rescinds the policy in HUD Handbook 4155.1.3.C.3.a (originally published in Mortgagee Letter 2009-32, Section III) in its entirety.

There are no other changes to outstanding guidance concerning the maximum insurable loan balance in:

- Non-credit-qualifying streamline transactions with no appraisal;
- Credit-qualifying streamline transactions with no appraisal; and
- Credit-qualifying streamline transactions with an appraisal.

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Streamline Refinances – Seasoning of the Refinanced Mortgage

This is a clarification of existing guidance and is effective immediately. On the date of FHA case number assignment:

- The mortgagor must have made at least six payments on the FHA-insured mortgage that is being refinanced, and
- At least six full months must have passed since the first payment due date of the refinanced mortgage, and
- At least 210 days have passed from the closing date of the mortgage being refinanced.

For example, if the FHA case number on the mortgage being refinanced was closed on or before December 1, and if mortgagor's first payment on that mortgage was due on January 1, the mortgagee may request assignment of an FHA case number for the refinancing mortgage no earlier than July 1.

Cash out Refinances – Acceptable Payment History

This is a clarification of existing guidance and is effective immediately. The refinancing mortgagee must document that the mortgagor has an acceptable payment history. The payment history is acceptable if the mortgagor:

- Is current and
- Has made all payments on the mortgage being refinanced within the month due for the previous 12 months.
- For mortgages with more than 6 months and less than 12 months of payment history, the mortgagor must have made all payments when due. Mortgages with less than 6 months of payment history are not eligible for a cash-out refinance.

Cash out Loan Transactions Which Pay Off Land Contracts or Properties Subject to Ground Rents

This is a clarification of existing guidance and must be implemented no later than 60 days from the date of this Mortgagee Letter. HUD Handbook 4155.1.2.B.6.a, which discusses the financing limit for loan transactions which pay off land contracts with no cash out at closing, also applies in its entirety to all cash out loan transactions which pay off land contracts, as well as refinancing transactions on properties subject to ground rents. Mortgagees will treat both of these types of transactions as if they were cash out refinances on property held in fee simple.

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Information Collection

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Questions

If you have questions concerning this Mortgagee Letter, please call the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number via TDD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483).

Signature

David H. Stevens
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