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## HUD Clarifies and Updates Refinance Guidelines

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Recently, HUD has issued Mortgagee Letters 2011-11 regarding refinance transactions. The purpose of the Mortgagee Letters was to clarify and update guidance to mortgagees regarding FHA refinances. The following rules apply to FHA Case Numbers assigned on and after April 18<sup>th</sup>, 2011:

### *All Refinances*

--If a borrower has re-occupied their investment property within the last 12 months prior to refinancing, the max LTV is 85%. The date of the 1003 must be used to determine the twelve month time period.

--3-4 family purchase guidelines now apply to all refinances. The property must be self-sufficient where the monthly rent received for all units minus the FHA vacancy factor must cover the PITI. Borrower must have 3 months PITI in reserves.

### *Streamline Refinances*

--Net tangible benefit is now a 5% reduction in P&I and MIP. Taxes and insurance are no longer factored into the comparative measure.

--Short / abbreviated version of the 1003 loan application is again okay for streamlines

--Certification of employment and income are no longer required for streamlines

--FHA's AUS, TOTAL system must not be used for streamlines. Also, the D.E. underwriter's CHUMS # must be used on the 92900LT and the 92900A (not ZFHA).

--Mortgagees cannot use a property appraisal valuation to increase the insurable mortgage balance above the sum of the outstanding principal balance and new UFMIP. Mortgagees cannot add closing costs, pre-pays or items such as late fees into new loan balance.

### *Cash-Out Refinances*

--A Six (6) month payment history is required before borrowers are eligible for cash-out.

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### Clarification of Existing Guidance

--Current status of the mortgage being refinanced:

Example: If the refinance closes in April 2011, the April payment may be included in the mortgage payoff amount. The March payment must have been paid on time during the month of March. It is permissible to include interest for 30 days (since interest is paid in arrears) plus interest to closing, not to exceed 60 days interest in payoff. The payoff statement must be in the file.

--CLTV must include the maximum accessible credit limit and the entire lien must be subordinated.

--Cash-Out - borrower must be current and with no lates in the past 12 months.

### Streamline Refi

--On the date of the FHA case #, at least 6 payments must have been made; at least 6 full months must have passed since the 1<sup>st</sup> payment was made, and at least 210 days have passed from the closing date of the mortgage being refinanced.

--If required to close, assets must be documented but are not required to be shown on the application.

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