

# **FHA CONNECTION**

## **Release Notes**

**(Changes and Processing Instructions)  
for Lenders**

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**HECM Refinance Initial MIP Formula**

**December 28, 2017**

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# 1 Purpose

The purpose of this document is to explain the changes to the FHA Connection (FHAC) that affect the business processes of HUD's lending partners, effective November 14, 2017.

## 2 HECM Refinance Initial MIP Formula

The Initial Mortgage Insurance Premium (IMIP) formula for Home Equity Conversion Mortgage (HECM) refinance cases was modified in FHAC for case numbers assigned on or after September 19, 2017. The modification is compliant with the requirements set forth in Final Rule FR-5353-F-03, Federal Housing Administration: Strengthening the Home Equity Conversion Mortgage Program and affects only HECM refinance cases.

FHAC uses the following formula to determine the amount of IMIP:

### 1. Calculate New IMIP Amount:

For HECM refinance case numbers assigned on or after October 2, 2017, multiply the new Maximum Claim Amount (MCA) by 2%. For case numbers assigned on September 19, 2017 and prior to October 2, 2017, use the IMIP rate in effect prior to October 2, 2017.

*Note: This amount is not reduced for IMIP paid on previous HECM(s).*

### 2. Perform the HECM Refinance IMIP Limit:

New IMIP Limit = ((new case MCA - old case MCA) \* 3%) - old case IMIP paid to HUD.

*Note: Old IMIP Paid: If the HECM that is being refinanced was also a HECM refinance, this includes only the IMIP paid on the HECM being refinanced without any credit for money paid on any previous HECM(s).*

### 3. Determine the New IMIP Due: Take the lesser of the New IMIP Amount or New IMIP Limit. No refunds will be given if the initial MIP paid on the existing HECM exceeds the initial MIP due on the new HECM.

## 2.1 HECM Refinance IMIP Calculation Examples

For case numbers assigned on or after October 2, 2017, below are IMIP calculation examples for HECM refinance cases.

### Refinance IMIP Example 1: From existing HECM with 60% or less Initial Disbursement Limit (IDL)

- A. Calculate New HECM Initial MIP:  $\$480,000 \times 2\% = \$9,600$
- A. Determine Old HECM Initial MIP Paid:  $\$400,000 \times .50\% = \$2,000$
- B. HECM Refi IMIP Limit:  $\$480,000 - \$400,000 = \$80,000 \times 3\% = \$2,400$ , Less Old MIP paid ( $\$2,000$ ) =  $\$400$
- C. New HECM IMIP Due:  $\$400$

### Refinance IMIP Example 2: From existing HECM with Initial Disbursement over 60%

- A. New IMIP Calc:  $\$480,000 \times 2\% = \$9,600$
- B. Old IMIP Paid:  $\$400,000 \times 2.50\% = \$10,000$
- C. HECM Rule Refi IMIP Limit:  $\$480,000 - \$400,000 = \$80,000 \times 3\% = \$2,400$ , Less Old MIP paid  $\$10,000 = (\$7,600)$
- D. New HECM IMIP Due:  $\$0$  since no refunds allowed

### Refinance IMIP Example 3: From existing HECM with .01% (HECM Saver)

- A. New IMIP Calc:  $\$480,000 \times 2\% = \$9,600$
- B. Old IMIP Paid:  $\$400,000 \times .01\% = \$40$
- C. HECM Refi IMIP Limit:  $\$480,000 - \$400,000 = \$80,000 \times 3\% = \$2,400$ , Less Old MIP paid  $\$40 = \$2,360$
- D. New HECM IMIP Due:  $\$2,360$

### Refinance IMIP Example 4: From existing HECM with 2% MIP (HECM Standard)

- A. New IMIP Calc:  $\$480,000 \times 2\% = \$9,600$
- B. Old IMIP Paid:  $\$400,000 \times 2\% = \$8,000$
- C. HECM Refi IMIP Limit:  $\$480,000 - \$400,000 = \$80,000 \times 3\% = \$2,400$ , Less Old MIP paid  $\$8,000 = (\$5,600)$ , or  $\$0$  New IMIP owed since no refunds allowed.
- D. New HECM IMIP Due:  $\$0$  since no refunds allowed

For case numbers assigned on September 19, 2017 and prior to October 2, 2017, below are IMIP calculation examples for HECM refinance cases.

**Refinance MIP Example 1: From existing HECM Saver to new HECM with Initial Disbursement Limit/Borrower's Advance 60% or Less of the Principal Limit**

- A. Calculate New HECM Initial MIP:  $\$480,000 \times 0.50\% = \$2,400$
- B. Determine Old HECM Initial MIP Paid:  $\$400,000 \times 0.01\% = \$40$
- C. HECM Refi IMIP Limit Test:  $\$480,000 - \$400,000 = \$80,000 \times 3\% = \$2400$ , Less Old MIP paid (\$40) = \$2360
- D. Initial MIP Due to HUD: \$2360

**Refinance MIP Example 2: From existing HECM Saver to new HECM with Initial Disbursement Limit/Borrower's Advance over 60% of the Principal Limit**

- A. Calculate New HECM Initial MIP:  $\$480,000 \times 2.50\% = \$12,000$
- B. Determine Old HECM Initial MIP Paid:  $\$400,000 \times 0.01\% = \$40$
- C. HECM Refi IMIP Limit Test:  $\$480,000 - \$400,000 = \$80,000 \times 3\% = \$2400$ , Less Old MIP paid (\$40) = \$2360
- D. New Initial MIP Due to HUD: \$2360

**Refinance MIP Example 3: From existing HECM Standard to new HECM with Initial Disbursement Limit/Borrower's Advance 60% or Less of the Principal Limit**

- A. Calculate New HECM Initial MIP:  $\$480,000 \times .0.50\% = \$2,400$
- B. Determine Old HECM Initial MIP Paid:  $\$400,000 \times 2\% = \$8,000$
- C. HECM Refi IMIP Limit Test:  $\$480,000 - \$400,000 = \$80,000 \times 3\% = \$2400$ , Less Old MIP paid (\$8000) = (\$5600)
- D. New HECM Initial MIP Due to HUD: \$0

*Note: If HECM Refi Initial MIP Limit is a negative number, the amount owed is zero. No refund.*

**Refinance MIP Example 4: From existing HECM Standard to new HECM with Initial Disbursement Limit/Borrower's Advance over 60% of the Principal Limit**

- A. Calculate New HECM Initial MIP:  $\$480,000 \times 2.50\% = \$12,000$
- B. Determine Old HECM Initial MIP Paid:  $\$400,000 \times 2\% = \$8,000$
- C. HECM Refi IMIP Limit Test:  $\$480,000 - \$400,000 = \$80,000 \times 3\% = \$2400$ , Less Old MIP paid (\$8000) = (\$5600)
- D. New HECM Initial MIP Due to HUD: \$0

*Note: If HECM Refi Initial MIP Limit is a negative number, the amount owed is zero. No refund.*