



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: November 14, 2014
To: All Approved Mortgagees
Mortgagee Letter 2014-23

Subject FHA Refinance of Borrowers in Negative Equity Positions: Program Extension

Background On August 6, 2010, the Department of Housing and Urban Development (HUD) announced Mortgagee Letter (ML) 2010-23, "FHA Refinance of Borrowers in Negative Equity Positions," which provided enhancements to the Federal Housing Administration (FHA) refinance program that gave a greater number of responsible borrowers an opportunity to remain in their homes. These enhancements were designed to maintain homeownership by providing borrowers, who owe more on their mortgage than the value of their home, opportunities to refinance into an affordable FHA loan. This opportunity allowed borrowers to qualify for an FHA refinance loan provided that the lender or investor wrote off the unpaid principal balance of the original first lien mortgage by at least 10 percent.

ML 2012-05 amended ML 2010-23 by providing changes to FHA's Refinance of Borrowers in Negative Equity Positions (Short Refinance) program. It instituted the Short Refinance Trial Payment Plan, allowed first lien holders to extinguish second lien debt, expanded the allowable debt-to-income ratios on manually underwritten loans and extended the expiration date of the program to December 31, 2014.

Purpose This Mortgagee Letter extends the expiration date of the program to December 31, 2016. The Mortgagee Letter also reiterates the permitted use of proceeds from government entities and instrumentalities of government to extinguish a portion of the negative equity. All other provisions of MLs 2010-23 and 2012-05 shall remain in effect.

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Reminder - Use of Financing from Government Entities or Instrumentalities of Government

One eligibility requirement of the Short Refinance program is that the existing first lien-holder must write off at least ten percent (10%) of the unpaid principal balance of the loan being refinanced. If further reduction to the unpaid principal balance is required to bring the Loan-to-Value (LTV) ratio of the new refinanced loan down to 97.75%, FHA allows proceeds from government entities and instrumentalities of government to be used.

Some government entities and instrumentalities of government may obtain a second mortgage lien against the property for the amount of the secondary financing which gives rise to a restriction on conveyance. The second mortgage lien and any pertinent restrictions on conveyance must comport with FHA regulations at 24 C.F.R. § 203.41, which address free assumability requirements and allowable restrictions on conveyance. Pursuant to § 203.41(c)(2), a restriction on conveyance must automatically terminate if title to the mortgage is transferred by foreclosure, deed-in-lieu of foreclosure, or if the mortgage is assigned to HUD

There is no maximum Combined Loan-to-Value (CLTV) ratio for second liens held by government entities or instrumentalities of government.

Program Extension - Extension of Program Expiration Date

This ML amends the initial program expiration date. The Short Refinance program will be available for an additional two years. All loans under the program must close on or before December 31, 2016.

4000.1 FHA Single Family Housing Policy Handbook

The provisions of this ML will be incorporated into the [4000.1 FHA Single Family Housing Policy Handbook](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1), issued September 30, 2014, as shown at http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1.

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Questions

Please address any questions about the topics addressed in this Mortgagee letter to the FHA Resource Center at (800) 225-5342. Persons with hearing or speech impairments may reach this number via TTY by calling the Federal Relay Service at (800) 877-8339. For additional information on this Mortgagee Letter, please visit www.hud.gov/answers.

Signature

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Commissioner
