

Section A. Refinance Transaction Overview

Overview

In This Section This section contains the topic “General Information on Refinance Transactions.”

1. General Information on Refinance Transactions

Introduction This topic contains general information on refinancing transactions, including

- the purpose of a refinance transaction
- the maximum percentage of financing for a refinance
- types of refinances
- the maximum refinancing term
- re-using an appraisal for a refinance
- refinance authorization numbers for FHA-to-FHA refinances
- maximum LTV factors, combined loan-to-value ratios (CLTV), and upfront mortgage insurance premiums (UFMIP) for various types of refinance transactions
- skipped payments on refinances
- refinance transactions on manufactured homes
- payoff statements for liens against subject property
- borrower occupancy of former investment property being refinanced, and
- a reference for refinances of three and four unit properties.

Change Date March 24, 2011

4155.1 3.A.1.a Purpose of a Refinance Transaction A refinance transaction is used to pay off an existing real estate debt with the proceeds of a new mortgage

- for borrower(s) with legal title, and
- on the same property.

Note: The borrower is eligible to refinance the loan, as long as he/she has legal title, even if he/she was not originally on the loan.

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1. General Information on Refinance Transactions, Continued

- 4155.1 3.A.1.b
Maximum
Percentage of
Financing
for a Refinance**
- The maximum percentage of financing for a refinance transaction is governed by
- the occupancy status of the property
 - the use of the loan proceeds, and
 - how and when the property was purchased.

Generally, the maximum mortgage amount may never exceed the statutory limit, except by the amount of any new upfront mortgage insurance premium (UFMIP). However, the maximum mortgage may exceed the statutory limit on certain specialty products.

Note: Most FHA mortgages require payment of an UFMIP. The statutory loan amount and loan-to-value (LTV) limits described in this handbook do *not* include UFMIP.

References: For more information on

- statutory loan limits for purchases, see HUD 4155.1 2.A.1.c, and
 - maximum loan-to-value and combined loan-to-value limits, see HUD 4155.1 3.A.1.g.
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- 4155.1 3.A.1.c
Types of
Refinances**
- FHA insures several different types of refinance transactions, including
- streamline refinances of existing FHA-insured mortgages made with or without appraisals
 - no cash out refinances (rate and term) of conventional and FHA-insured mortgages, where all proceeds are used to pay existing liens and costs associated with the transactions, and
 - cash out refinances.

References: For information on

- streamline refinances
 - with an appraisal, see HUD 4155.1 3.C.3 , and
 - without an appraisal, see HUD 4155.1 3.C.2
 - no cash out refinances, see HUD 4155.1 3.B.1, and
 - cash out refinances, see HUD 4155.1 3.B.2.
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1. General Information on Refinance Transactions, Continued

**4155.1 3.A.1.d
Maximum
Refinancing
Term** The maximum term of any refinance with an appraisal is 30 years.

The maximum term of a streamline refinance without an appraisal is limited to the lesser of

- the remaining term of the existing mortgage, plus 12 years, or
- 30 years.

Reference: For more information on streamline refinances, see HUD 4155.1 3.C.

**4155.1 3.A.1.e
Re-Using an
Appraisal for a
Refinance** FHA appraisals on existing properties are valid for six months. However, appraisals cannot be reused

- during the six month validity period once the mortgage for which the appraisal was ordered has closed, or
- for a subsequent refinance, even if six months have not passed.

A new appraisal is required for each refinance transaction requiring an appraisal.

Reference: For more information on appraisal reuse, see HUD 4155.2 4.4.e.

**4155.1 3.A.1.f
Refinance
Authorization
Numbers for
FHA-to-FHA
Refinances** A lender *must* obtain a Refinance Authorization Number from the FHA Connection (FHAC), or functional equivalent, for all FHA-to-FHA refinances.

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1. General Information on Refinance Transactions, Continued

**4155.1 3.A.1.g
Maximum LTV
Factors, CLTV
Ratios, and
UFMIP for
Various Types
of Refinance
Transactions**

The table below lists the maximum LTV factors, combined LTV (CLTV) ratios, and UFMIP for various types of refinance transactions.

References: For more information on

- no cash out (rate and term) refinances with an appraisal, see HUD 4155.1 3.B.1
- streamline refinances with an appraisal, see HUD 4155.1 3.C.3
- streamline refinances without an appraisal, see HUD 4155.1 3.C.2, and
- cash out refinances, see HUD 4155.1 3.B.2.

Type of Refinance	Maximum LTV	Maximum CLTV	UFMIP
Rate and Term (No Cash Out)	97.75%	97.75%	100 BPS
FHA-to-FHA Streamline w/Appraisal or w/o Appraisal	97.75% <i>Reference:</i> For more information, see HUD 4155.1 3.C.2.	125%	100 BPS
Cash Out Refinance	85%	85%	100 BPS

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1. General Information on Refinance Transactions, Continued

4155.1 3.A.1.g Maximum LTV Factors, CLTV Ratios, and UFMIP for Various Types of Refinance Transactions (continued)

Type of Refinance	Maximum LTV	Maximum CLTV	UFMIP
Refinances for Borrowers in Negative Equity Positions <i>Note:</i> This is a temporary program valid from October 7, 2010 through December 31, 2012. <i>References:</i> For more information, see <ul style="list-style-type: none"> • HUD 4155.1 6.F • ML 10-23, and • ML 10-35. 	97.75%	115%	100 BPS

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1. General Information on Refinance Transactions, Continued

4155.1 3.A.1.h Skipped Payments on Refinances

The borrower must be current on the loan being refinanced for the month due *prior* to the month in which he/she closes the refinancing, *and* for the month in which he/she closes.

Example: If the borrower is closing on April 8, he/she must have made the March payment within the month of March, and the April payment by closing. The April payment may be included in the payoff amount at closing.

Lenders are not permitted to allow borrowers to “skip” payments when refinancing. When the new mortgage amount is calculated, FHA does not permit any mortgage payments “skipped” by the borrower to be included in the new mortgage amount.

The borrower must either

- make the payment when it is due, or
 - bring the monthly mortgage payment check to settlement.
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4155.1 3.A.1.i Refinance Transactions on Manufactured Homes

For a transaction involving a manufactured home to be considered a refinance, the manufactured home must

- have acceptable property status
- be complete, and
- have been permanently erected on a site for more than one year (12 months) prior to the date of the application for mortgage insurance.

Standard maximum mortgage calculations apply.

References: For more information on determining

- property status on a manufactured home, see 4155.1 2.B.8.c, and
 - maximum mortgage amount for a manufactured home less than 12 months old, see 4155.1 2.B.8.b.
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1. General Information on Refinance Transactions, Continued

**4155.1 3.A.1.j
Payoff
Statements for
Liens Against
Subject
Property**

A lender must obtain payoff statements for all liens that are to be satisfied from the proceeds of a refinance transaction.

For any lien against the subject property that is subject to payments, it is the responsibility of the lender to review and ascertain that the lien/loan/mortgage is current for the month due, for both streamline and cash out refinance transactions.

**4155.1 3.A.1.k
Borrower
Occupancy of
Former
Investment
Property Being
Refinanced**

Effective with case numbers assigned on or after April 18, 2011, the table below describes the maximum mortgage amount available, for all refinances, to a borrower who re-occupies his/her investment property that is security for the mortgage being refinanced.

If the borrower has occupied his/her former investment property for...	Then he/she is eligible for...
12 months or more prior to the loan application date of the refinance	maximum financing at the same level as an owner-occupant.
fewer than 12 months prior to the loan application date of the refinance	rate and term refinancing <i>only</i> , with an LTV not to exceed 85%.

**4155.1 3.A.1.1
Refinances of
Three and Four
Unit Properties
(Reference)**

Effective with case numbers assigned on or after April 18, 2011, all refinance transactions of three and four unit properties must comply with the guidance provided in HUD 4155.1 2.B.4, as outlined in the table below.

Policy	Reference
Maximum mortgage amount	HUD 4155.1 2.B.4.a
Monthly mortgage payment calculation	HUD 4155.1 2.B.4.b
Net rental income calculation	HUD 4155.1 2.B.4.c
Required reserves	HUD 4155.1 2.B.4.d