

Section B. Maximum Mortgage Amounts on No Cash Out/Cash Out Refinance Transactions

Overview

In This Section This section contains the topics listed in the table below.

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2	Cash Out Refinance Transactions	3-B-8

1. No Cash Out Refinance Transactions With an Appraisal

Introduction This topic contains information on no cash out refinance transactions with an appraisal, including

- the maximum mortgage calculation
 - calculating the existing debt
 - subordinate liens
 - refinancing to buy out ex-spouse or coborrower equity
 - mortgage calculation for a property acquired less than one year before loan application, and
 - short payoffs.
-

Change Date March 24, 2011

4155.1 3.B.1.a Maximum Mortgage Calculation The maximum mortgage for a no cash out refinance with an appraisal (credit qualifying) is the *lesser* of the

- 97.75% Loan-To-Value (LTV) factor applied to the appraised value of the property, or
- existing debt.

The total FHA first mortgage is limited to 100% of the appraised value, *including* any financed upfront mortgage insurance premium (UFMIP).

Most FHA mortgages require payment of an UFMIP. The statutory loan amounts and LTV limits described in this handbook do not include the UFMIP.

Generally, the maximum mortgage may *never* exceed the statutory limit, except by the amount of any new UFMIP. However, the maximum mortgage may exceed the statutory limit on certain specialty products.

Note: The borrower must comply with any appraisal requirements, including repairs, before the mortgage is eligible for insurance endorsement.

References: For more information on

- maximum LTV factors, see HUD 4155.1 2.A.2.b, and
 - UFMIP amounts, see HUD 4155.2 7.2.a.
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1. No Cash Out Refinance Transactions With an Appraisal, Continued

**4155.1 3.B.1.b
Calculating the
Existing Debt
on a No Cash
Out Refinance
With an
Appraisal**

The underwriter should follow the steps in the table below to calculate the existing debt.

Note: On this type of refinance transaction, the borrower may not receive cash back in excess of \$500 at closing.

Step	Action
1	<p>Determine the amount of the existing first mortgage. The existing first mortgage must be current for the month due and</p> <ul style="list-style-type: none"> • <i>may</i> include <ul style="list-style-type: none"> – the interest charged by the servicing lender when the payoff will not likely be received on the first day of the month (as is typically assessed on FHA-insured mortgages) – any prepayment penalties assessed on a conventional mortgage or an FHA Title I loan – late charges, and – escrow shortages, and • <i>may not</i> include delinquent interest.
2	<p>Determine the prepaid expenses, which may include</p> <ul style="list-style-type: none"> • the per diem interest to the end of the month on the new loan • hazard insurance premium deposits • monthly mortgage insurance premiums, and • any real estate tax deposits needed to establish the escrow account.

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1. No Cash Out Refinance Transactions With an Appraisal, Continued

4155.1 3.B.1.b Calculating the Existing Debt on a No Cash Out Refinance With an Appraisal (continued)

Step	Action
3	<p>Add the following to the existing first mortgage amount:</p> <ul style="list-style-type: none"> • any purchase money second mortgage • any junior liens over 12 months old • closing costs • prepaid expenses (even if the lender refinancing the loan is the servicer) • borrower-paid repairs required by the appraisal, and • discount points. <p><i>Note:</i> If the balance or any portion of an equity line of credit in excess of \$1000 was advanced within the past 12 months and was for purposes <i>other</i> than repairs and rehabilitation of the property, that portion above and beyond \$1,000 of the line of credit is <i>not</i> eligible for inclusion in the new mortgage.</p>
4	<p>Subtract any refund of UFMIP.</p> <p>Result: The resulting figure is the existing debt.</p>

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1. No Cash Out Refinance Transactions With an Appraisal, Continued

4155.1 3.B.1.c Subordinate Liens

A subordinate lien, including a Home Equity Line of Credit (HELOC), regardless of when taken, may remain outstanding (but subordinate to the FHA-insured mortgage), provided the

- FHA insured mortgage meets the eligibility criteria for mortgages with secondary financing outlined in HUD 4155.1 5.C, and
- combined amount of the FHA-insured mortgage and the entire subordinate lien does not exceed the applicable FHA LTV ratios.

The lender must use the maximum accessible credit limit of the existing subordinate lien to calculate the Combined Loan-to-Value (CLTV) ratio.

References: For more information on

- the refinance of borrowers in a negative equity position program, see
 - HUD 4155.1 6.F
 - [ML 10-23](#), and
 - [ML 10-35](#), and
- streamline refinances, see HUD 4155.1 6.C.

Note: Both of these programs may have different LTV requirements.

4155.1 3.B.1.d Refinancing to Buy Out Ex- Spouse or Coborrower Equity

When the purpose of the new loan is to refinance an existing mortgage in order to buy out an ex-spouse's or other coborrower's equity, the specified equity to be paid is

- considered property-related indebtedness, and
- eligible to be included in the new mortgage calculation.

The divorce decree, settlement agreement, or other bona fide equity agreement must be provided to document the equity awarded to the ex-spouse or coborrower.

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1. No Cash Out Refinance Transactions With an Appraisal, Continued

4155.1 3.B.1.e Mortgage Calculation for a Property Acquired Less Than One Year Before Loan Application

If the property was acquired less than one year before the loan application, and is not already FHA-insured, the original sales price of the property must be considered in determining the maximum mortgage, in addition to the calculations described previously in this topic.

Using conclusive documentation, expenditures for repairs and rehabilitation incurred after the purchase of the property may be added to the original sales price in calculating the mortgage amount.

The maximum mortgage amount will be based on the *lesser* of the

- total cost to acquire the property, which includes the original purchase price plus any
 - documented costs incurred for rehabilitation, repairs, renovation, or weatherization
 - closing costs, and
 - reasonable discount points, **or**
- current appraised value, **or**
- total of all mortgage liens held against the subject property.

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1. No Cash Out Refinance Transactions With an Appraisal, Continued

4155.1 3.B.1.f Short Payoffs

To be eligible for refinancing with a short payoff, a borrower must be current on his/her mortgage.

FHA will insure the first mortgage where the existing note holder(s) write off the amount of the indebtedness that cannot be refinanced into the new FHA-insured mortgage if

- there is insufficient equity in the home based on its current appraised value, and/or
- the borrower has experienced a reduction in income and does not have the capacity to repay the existing indebtedness against the property.

For instances where the existing note holders are reluctant to write down indebtedness, a new subordinate lien may be executed for the amount by which the payoff is short.

If payments on subordinate financing are required, they must be included in the qualifying ratios unless payments have been deferred for no less than 36 months. This policy applies *only* to no cash out (rate and term) refinances with short payoffs.

References: For more information on

- mortgage payment history required for refinancing, see HUD 4155.1 4.C.2.b,
 - new subordinate financing see HUD 4155.1 3.B.1.c, and
 - short sales, see HUD 4155.1 4.C.2.1.
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2. Cash Out Refinance Transactions

Introduction This topic contains general information for cash out refinance transactions, including

- eligibility for cash out refinances
- ineligibility of delinquent borrowers and payment history requirement for cash out refinances
- restriction on addition of non-occupant coborrower for credit underwriting compliance
- subordinate liens and combined loan-to-value (CLTV) ratios on cash out refinances
- maximum mortgage amount calculation based on length of ownership, and
- cash out refinancing for debt consolidation.

Change Date March 24, 2011

4155.1 3.B.2.a Eligibility for Cash Out Refinances Cash out refinance transactions are only permitted on owner-occupied principal residences.

Properties owned free and clear *may* be refinanced as cash out transactions.

References: For more information on

- three and four unit properties, including self-sufficiency requirements, see HUD 4155.1 2.B.4, and
- eligibility and mortgage payment history, see HUD 4155.1 3.B.2.b.

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2. Cash Out Refinance Transactions, Continued

4155.1 3.B.2.b Ineligibility of Delinquent Borrowers and Payment History Requirement for Cash Out Refinances

Borrowers who are delinquent, in arrears, or who have suffered any mortgage delinquencies within the most recent 12 month period under the terms and conditions of their mortgages are *not* eligible for cash out refinances.

If a property is encumbered by a mortgage, the refinancing lender must document that the borrower has an acceptable payment history.

The payment history is acceptable if the borrower

- 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 six months and fewer than 12 months of payment history, the borrower must have made all payments when due. Mortgages with fewer than six months of payment history are not eligible for cash out refinances.

4155.1 3.B.2.c Restriction on Addition of Non-Occupant Coborrower for Credit Underwriting Compliance

Non-occupant coborrowers may *not* be added in a cash out refinance transaction in order to meet FHA's credit underwriting guidelines for the mortgage. Any coborrower or cosigner being added to the note must be an occupant of the property.

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2. Cash Out Refinance Transactions, Continued

**4155.1 3.B.2.d
Subordinate
Liens and
CLTV Ratios
on Cash Out
Refinances**

The table below lists the policy requirements regarding subordinate financing and combined loan-to-value (CLTV) requirements on cash out refinances.

Type of Subordinate Lien	Policy Requirement
New subordinate financing	If new subordinate financing is being offered by the lender or other permitted entity, the CLTV is limited to 85% (the FHA-insured first mortgage and any new junior liens when added together).
Existing subordinate financing	Existing subordinate financing may remain in place, but must be subordinated to the FHA-insured first mortgage, regardless of the total indebtedness or CTLV ratio, provided the borrower qualifies for making scheduled payments on all liens. The lender must use the maximum accessible credit limit of the existing subordinate lien to calculate the CLTV ratio.
Modified subordinate lien	Many subordinate lien holders request modifications to the terms of the lien (typically a reduction in the amount of the lien) in exchange for remaining in a subordinate position. Modifying a subordinate lien in this manner often results in re-executing the lien at closing, which is acceptable to FHA. In this case, FHA does not consider the lien a new subordinate lien.

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2. Cash Out Refinance Transactions, Continued

4155.1 3.B.2.e
Maximum
Mortgage
Amount
Calculation
Based on
Length of
Ownership

The table below describes the maximum mortgage amount calculation for cash out refinance transactions, based on the length of ownership.

If the property has been owned by the borrower as his/her principal residence for ...	Then the mortgage ...
<i>12 months or more</i> preceding the date of the loan application	is eligible for the maximum amount of 85% of the appraiser's estimate of value.
<i>fewer than 12 months</i> preceding the date of the loan application	is limited to the <i>lesser</i> of 85% of the <ul style="list-style-type: none"> • appraiser's estimate of value, or • sales price of the property when acquired. <p><i>Note:</i> The sales price does not need to be considered if the property was acquired as the result of inheritance and is, or will become, the heir's principal residence.</p>

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2. Cash Out Refinance Transactions, Continued

4155.1 3.B.2.f Cash out refinancing for debt consolidation represents considerable risk, especially if the borrowers have not had a corresponding increase in income.
Cash Out
Refinancing for
Debt Careful evaluation of this type of transaction is required.
Consolidation
