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New FHA Mortgagee Letter and Streamline Refinance Announcements

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Mortgagee Letter 2012-24

Title: Secondary Financing Eligibility Requirements for Internal Revenue Code (IRC) Section 115 Entities

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This mortgagee letter replaces guidance concerning the eligibility of these entities to participate in FHA programs that expired on June 16, 2012. This Mortgagee Letter clarifies that HUD deems Section 115 entities to be “instrumentalities of government” for the purpose of providing secondary financing under single family FHA programs. As such, Section 115 entities are held to the same program eligibility standards applicable to all other government agencies and instrumentalities of government as described in 24 CFR § 203.32(b). Section 115 entities solely participating in the operation of secondary financing under single family FHA programs are no longer required to apply for approval from HUD or placement on HUD’s Nonprofit Organization Roster.

Lenders are required to obtain proof of Section 115 status from the organization providing secondary financing and file it in the FHA case binder. Evidence of status may include any one of the following: a letter from the organization’s auditor, a written statement from the General Counsel, as an official of the organization, a Letter Ruling issued by the Internal Revenue Service, or an equivalent document evidencing Section 115 status.

To view this mortgagee letter in its entirety visit: <http://bit.ly/HUDml>

For further information on this notice, please visit the FHA FAQ site (<http://bitly.com/FHAFAQ>) or contact the FHA Resource Center by telephone at 1-800-CALL FHA (1-800-225-5342) or e-mail via answers@hud.gov. Persons with hearing or speech impairments may access this number via TTY by calling the Federal Information Relay Service at (800) 877-8339.

Announcements Regarding Streamline Refinances

1. System Enhancements: All Streamline Refinances

In order to accurately apply correct policy guidelines based on the type of Streamline Refinance, FHA is adding an indicator in the FHA Connection Insurance Application screen to identify Credit Qualifying and Non-Credit Qualifying streamline refinances. This indicator will become available on December 10, 2012. The completion of this field will be optional through March 31, 2013 in order to provide lenders time to program systems. After the optional period, this will be a required field for all Streamline Refinance cases. The insuring lender will be required to indicate if the case is credit qualifying or non-credit qualifying. Further details on this system enhancement may be found on FHA’s Lender page: <http://portal.hud.gov/hudportal/HUD?src=/groups/lenders>

FHA business to government (B2G) partners, please visit the B2G help page for more information on this system change.

Additionally, effective December 10, 2013 FHA Connection will accept the manual delivery of Credit Scores for all Streamline Refinances. Lenders are reminded that credit reports or credit scores are not required for non-credit qualifying streamline refinances and TOTAL Scorecard may not be used for automated underwriting of any streamline refinance – credit qualifying or non-credit qualifying.

2. Policy Clarification: Credit Qualifying Streamline Refinances with an Appraisal-

Mortgage Letter (ML) 2011-11 amended guidance for the calculation of the maximum mortgage amount for **Non-Credit** Qualifying Streamline refinances, by removing the ability to utilize an appraisal to increase the insurable mortgage amount to cover financing of closing costs and prepaid items. ML 2011-11 made no changes to the calculation of maximum mortgage amount for **Credit Qualifying** Streamline Refinances with an Appraisal. Reference to the maximum insurable mortgage amount for Credit Qualifying Streamline refinances with an appraisal may be found in ML 2009-32.

3. *Reminder:* Streamline Refinances Without Appraisals - maximum mortgage may not exceed the lesser of the:
- Original Principal Balance or,
 - Outstanding Principal Balance, plus up to 2 months of interest and monthly MIP on the outstanding FHA loan. (Note: Non- Owner occupied loans may not include outstanding interest or MIP in the calculation)

Therefore a streamline refinance without an appraisal of an FHA loan in which a modification has increased the outstanding principal balance beyond the original principal balance will be limited to an amount not to exceed the original balance.

See 24 CFR 203.43(c) and Mortgage Letters 08-40, 09-32 and 11-11 for details.