Chapter 3. Maximum Mortgage Amounts on Refinance Transactions

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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
- types of refinances
- the maximum refinancing term
- re-using an appraisal
- refinance authorization numbers for FHA-to-FHA refinances
- maximum LTV factors and UFMIP for various types of refinance transactions
- skipped payments are not acceptable, and
- refinance transactions on manufactured homes.

**Change Date**

October 26, 2009

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 is not originally on the loan.

4155.1 3.A.1.b **Maximum Percentage of Financing**

The maximum percentage of financing 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 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 Federal Housing Administration (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.

*Continued on next page*
1. General Information on Refinance Transactions, Continued

FHA insures several different types of refinance transactions, including

- streamline refinances of existing FHA-insured mortgages made with and without appraisals
- no cash out refinances 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.

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.

Continued on next page
1. **General Information on Refinance Transactions**, Continued

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**4155.1 3.A.1.e**  
**Re-Using an Appraisal**  
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.

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**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, or functional equivalent, for all FHA-to-FHA refinances.

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**4155.1 3.A.1.g**  
**Maximum LTV Factors and UFMIP for Various Types of Refinance Transactions**  
The table below lists the maximum LTV factors 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](#).

<table>
<thead>
<tr>
<th>Type of Refinance</th>
<th>Maximum LTV</th>
<th>UFMIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate and Term</td>
<td>97.75%</td>
<td>1.75%</td>
</tr>
<tr>
<td>FHA-to-FHA Streamline w/Appraisal</td>
<td>97.75%</td>
<td>1.50%</td>
</tr>
<tr>
<td>FHA-to-FHA Streamline w/o Appraisal</td>
<td>N/A</td>
<td>1.50%</td>
</tr>
<tr>
<td>Cash Out Refinance</td>
<td>85%</td>
<td>1.75%</td>
</tr>
</tbody>
</table>

*Reference:* For more information, see [HUD 4155.1 3.C.2](#).

*Continued on next page*
1. General Information on Refinance Transactions, Continued

**4155.1 3.A.1.h**  
**Skipped Payments Are Not Acceptable**

Lenders are not permitted to allow borrowers to “skip” payments. The borrower must either

- make the payment when it is due, or
- bring the monthly mortgage payment check to settlement.

When the new mortgage amount is calculated, FHA does not permit the inclusion of any mortgage payments “skipped” by the borrower in the new mortgage amount.

*Example:* A borrower whose mortgage payment is due June 1 and expects to close the refinance before the end of June is not permitted to roll the June mortgage payment into the new FHA loan amount.

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

Overview

This section contains the topics listed in the table below.

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<thead>
<tr>
<th>Topic</th>
<th>Topic Name</th>
<th>See Page</th>
</tr>
</thead>
<tbody>
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<td>1</td>
<td>No Cash Out Refinance Transactions With an Appraisal</td>
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</tr>
<tr>
<td>2</td>
<td>Cash Out Refinance Transactions</td>
<td>3-B-6</td>
</tr>
</tbody>
</table>
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, and
- the mortgage calculation for a property acquired less than one year before the loan application.

Change Date
July 6, 2009

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

- 97.75% LTV factor applied to 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.

Reference: For more information on maximum LTV factors, see HUD 4155.1 2.A.2.b.

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

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.

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
</table>
| 1    | Determine the amount of the existing first mortgage. The existing first mortgage must be current for the month due and  
      • *may* include  
      – 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), and  
      – any prepayment penalties assessed on a conventional mortgage or FHA Title I loan  
      – late charges, and  
      – escrow shortages, and  
      • *may not* include delinquent interest. |
| 2    | Determine the prepaid expenses, which may include  
      • the per diem interest to the end of the month on the new loan  
      • hazard insurance premium deposits  
      • mortgage insurance premiums, and  
      • any real estate tax deposits needed to establish the escrow account. |

*Continued on next page*
1. No Cash Out Refinance Transactions With an Appraisal, Continued

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

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
</table>
| 3    | Add the following to the existing first mortgage amount:  
  • any purchase money second mortgage  
  • any junior liens over 12 months old  
  • closing costs  
  • prepaid expenses (even if the mortgagee refinancing the loan is the servicing lender)  
  • borrower paid repairs required by the appraisal, and  
  • discount points.  
  
  **Note:** 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 other than repairs and rehabilitation of the property, that portion above and beyond $1,000 of the line of credit is not eligible for inclusion in the new mortgage. |
| 4    | Subtract any refund of UFMIP.  
  
  **Result:** The resulting figure is the existing debt. |

4155.1 3.B.1.c Subordinate Liens

Subordinate liens, including lines of credit, 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.

**Note:** New subordinate liens may be placed behind the FHA-insured mortgage and are subject to no CLTV cap.
1. No Cash Out Refinance Transactions With an Appraisal, Continued

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.

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, in addition to the calculations described previously in this topic, the original sales price of the property must also be considered in determining the maximum mortgage.

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.
2. Cash Out Refinance Transactions

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

- eligibility for cash out refi nances
- ineligibility of delinquent borrowers for cash out refi nances
- restriction on addition of non-occupant coborrower for credit underwriting compliance
- subordinate liens and CLTV ratios on cash out refi nances
- maximum mortgage amount calculation based on length of ownership, and
- the risk on cash out refi nancing for debt consolidation.

Change Date
July 6, 2009

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

Properties owned free and clear may be refi nanced as cash out transactions.

Reference: For information, including self-sufficiency requirements, for three and four unit properties, see HUD 4155.1 2.B.4.

4155.1 3.B.2.b
Ineligibility of Delinquent Borrowers for Cash Out Refi nances
Borrowers who are delinquent or in arrears under the terms and conditions of their mortgage are not eligible for cash out refi nances.

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.

Continued on next page
2. Cash Out Refinance Transactions, Continued

If a property is encumbered by a mortgage, the borrower must have made all of his/her mortgage payments on time within the month due for the previous 12 months.

*Reference:* For information on the ineligibility of delinquent borrowers, see HUD 4155.1 3.B.2.b.

The table below lists the policy requirements regarding subordinate financing and CLTVs.

<table>
<thead>
<tr>
<th>Type of Subordinate Lien</th>
<th>Policy Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>New subordinate financing</td>
<td>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)</td>
</tr>
<tr>
<td>Existing subordinate financing</td>
<td>Existing subordinate financing may remain in place, but subordinate to the FHA-insured first mortgage, regardless of the total indebtedness or CLTV ratio, provided the borrower qualifies for making scheduled payments on all liens.</td>
</tr>
<tr>
<td>Modified subordinate lien</td>
<td>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 the 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.</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>If the property has been owned by the borrower as his/her principal residence for ...</th>
<th>Then the mortgage …</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 months or more preceding the date of the loan application</td>
<td>is eligible for the maximum amount of 85% of the appraiser’s estimate of value.</td>
</tr>
</tbody>
</table>
| less than 12 months preceding the date of the loan application | is limited to the less of 85% of the • appraiser’s estimate of value, or • sales price of the property when acquired.  

Note: 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.
Cash Out Refinance Transactions, Continued

4155.1 3.B.2.g  
Risk on Cash Out Refinancing for Debt Consolidation

Cash out refinancing for debt consolidation represents considerable risk, especially if the borrowers have not had a corresponding increase in income. Careful evaluation of this type of transaction is required.

4155.1 3.B.2.h  
Borrower Use of Non-Approved Broker to Assist in Obtaining Mortgage Financing (Reference)

For information on FHA policy regarding a borrower engaging a broker who is not FHA-approved to assist in obtaining financing, see

- HUD 4155.2 1.A.3.a, and
- HUD 4155.2 1.A.3.b.
Section C. Maximum Mortgage Amounts on Streamline Refinances

Overview

This section contains the topics listed in the table below:

<table>
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<th>Topic</th>
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<td>Streamline Refinances Without an Appraisal</td>
<td>3-C-3</td>
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<tr>
<td>3</td>
<td>Streamline Refinances With an Appraisal (No Credit Qualifying)</td>
<td>3-C-6</td>
</tr>
</tbody>
</table>
1. General Information on Streamline Refinances

Introduction
This topic contains general information on streamline refinances, including

- the purpose of a streamline refinance, and
- where to locate additional policies and instructions on streamline refinances.

Change Date
May 10, 2009

4155.1 3.C.1.a
Purpose of a Streamline Refinance
Streamline refinances

- are designed to lower the monthly principal and interest payments on a current FHA-insured mortgage, and
- must involve no cash back to the borrower, except for minor adjustments at closing, not to exceed $500.

Streamline refinances can be made with or without an appraisal.

References: For information on streamline refinances
- without an appraisal, see HUD 4155.1 3.C.2, and
- with an appraisal, see HUD 4155.1 3.C.3.

4155.1 3.C.1.b
Additional Streamline Refinance Policies and Instructions Reference
For additional policies, processing guidelines, and underwriting instructions for streamline refinances, see HUD 4155.1 6.C.
2. Streamline Refinances Without an Appraisal

**Introduction**
This topic contains information about streamline financing without an appraisal, including

- streamline refinancing mortgage limits
- maximum mortgage term
- maximum insurable mortgage calculation
- applicability of the mortgage calculation process
- streamline refinances for non owner occupant properties, and
- policy on subordinate financing on streamline refinances.

**Change Date**
December 8, 2009

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4155.1 3.C.2.a
Streamline Refinancing Mortgage Limits

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

4155.1 3.C.2.b
Maximum Mortgage Term for Streamline Refinances

The streamline refinance mortgage term is the lesser of

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

Continued on next page
2. Streamline Refinances Without an Appraisal, Continued

The maximum insurable mortgage for streamline refinances without an appraisal cannot exceed the outstanding principal balance

- minus the applicable refund of the Upfront Mortgage Insurance Premium (UFMIP),
- plus the new UFMIP that will be charged on the refinance.

Note: The outstanding principal balance
- may include interest charged by the servicing lender when the payoff is not received on the first day of the month, but
- may not include delinquent interest, late charges or escrow shortages.

Reference: For step-by-step instructions on calculating the existing debt, see HUD 4155.1 3.B.1.b.

The mortgage calculation process described in HUD 4155.1 3.C.2.c applies only to owner occupied properties. Non owner occupant properties, even if originally acquired as principal residences by the current borrowers, may only be refinanced for the outstanding principal balance.
Streamline financing by investors, or for secondary residences may only be made without an appraisal, and must be made solely in the business entity’s name, if the residence was previously insured in the business entity’s name.

The new security instruments must contain FHA’s standard provision permitting acceleration of the mortgage when assumed by an investor, or as a secondary residence. However, FHA does not authorize the lender to exercise the acceleration provision if the investor assumptor is found to be creditworthy.

Although a property purchased as a principal residence, under certain circumstances as described in the security instruments, may be rented or become a secondary residence, a streamline refinance without an appraisal does not “convert” the mortgage to one eligible for assumption by an investor.

References: For more information on refinancing non owner occupant properties, see
- 4155.1 4.B.3
- 4155.1 4.B.4
- 4155.1 6.C.5.a, and
- 4155.1 6.C.5.b.

Subordinate liens, including credit lines, regardless of when taken, may remain outstanding, but must be subordinate to the FHA-insured mortgage.

If subordinate financing remains in place, the

- maximum combined loan-to-value (CLTV) is 125 percent
- CLTV is based on the original appraised value of the property, and
- maximum CLTV is calculated by taking the original FHA base loan amount (the original FHA principal balance excluding financed UFMIP), adding all other financed liens still outstanding, and dividing by the appraised value. This calculation may not exceed 125 percent.
3. Streamline Refinances With an Appraisal (No Credit Qualifying)

Introduction

This topic contains information about streamline refinancing with an appraisal, including:

- the maximum insurable mortgage calculation
- the policy on subordinate financing on streamline refinances with an appraisal, and
- the restriction on borrower cash back at closing on streamline refinances with an appraisal.

Change Date

December 8, 2009

Continued on next page
3. Streamline Refinances With an Appraisal (No Credit Qualifying), Continued

The maximum insurable mortgage for streamline refinances with an appraisal is the lesser of

- the existing principal balance
  - minus the applicable refund of UFMIP
  - plus closing costs, prepaid items to establish the escrow account, and the new UFMIP that will be charged on the refinance transaction, or
- 97.75 percent of the appraised value of the property plus the new UFMIP that will be charged on the refinance.

Notes:

- The outstanding principal balance
  - may include interest charged by the servicing lender when the payoff is not received on the first day of the month, but
  - may not include delinquent interest, late charges or escrow shortages.
- Prepaid expenses may include
  - 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, regardless of whether the lender refinancing the existing loan is also the servicing lender for that mortgage.
- Discount points may not be included in the new mortgage. If the borrower has agreed to pay discount points, the lender must verify that the borrower has the assets to pay them, along with any other financing costs not included in the new mortgage amount.

Continued on next page
3. Streamline Refinances With an Appraisal (No Credit Qualifying), Continued

4155.1 3.C.3.b Policy on Subordinate Financing on Streamline Refinances With An Appraisal

Subordinate liens, including credit lines, regardless of when taken, may remain outstanding, but must be subordinate to the FHA-insured mortgage.

If subordinate financing remains in place, the

• maximum combined loan-to-value (CLTV) is 125 percent, and
• CLTV is based on the new appraised value.

4155.1 3.C.3.c Restriction on Borrower Cash Back at Closing on a Streamline Refinance With an Appraisal

A streamline refinance transaction with an appraisal must involve no cash back to the borrower, except for minor adjustments at closing, not to exceed $500.