

## Chapter 3. Maximum Mortgage Amounts on Refinance Transactions

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## Section A. Refinance Transaction Overview

### Overview

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

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## 1. General Information on Refinance Transactions

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**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.
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**Change Date** October 26, 2009

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**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.

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**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.

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## 1. General Information on Refinance Transactions, Continued

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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 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](#).
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### 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](#).

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## 1. General Information on Refinance Transactions, Continued

### 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.

### 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.

### 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](#).

| Type of Refinance                   | Maximum LTV  | UFMIP |
|-------------------------------------|--|-------|
| Rate and Term                       | 97.75%   | 1.75% |
| FHA-to-FHA Streamline w/Appraisal   | 97.75%   | 1.50% |
| FHA-to-FHA Streamline w/o Appraisal | N/A  | 1.50% |
|                                     | <i>Reference:</i> For more information, see <a href="#">HUD 4155.1 3.C.2</a> . |       |
| Cash Out Refinance                  | 85%  | 1.75% |

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## 1. General Information on Refinance Transactions, Continued

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### 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](#).
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## Section B. Maximum Mortgage Amounts on No Cash Out/Cash Out Refinance Transactions

### Overview

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

| <b>Topic</b> | <b>Topic Name</b>                                    | <b>See Page</b> |
|--------------|--|-----------------|
| 1            | No Cash Out Refinance Transactions With an Appraisal | 3-B-2           |
| 2            | Cash Out Refinance Transactions                      | 3-B-6           |

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## 1. No Cash Out Refinance Transactions With an Appraisal

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**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.

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**Change Date** July 6, 2009

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**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](#).

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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**

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"> <li>• <i>may</i> include                             <ul style="list-style-type: none"> <li>– 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</li> <li>– any prepayment penalties assessed on a conventional mortgage or FHA Title I loan</li> <li>– late charges, and</li> <li>– escrow shortages, and</li> </ul> </li> <li>• <i>may not</i> include delinquent interest.</li> </ul> |
| 2    | <p>Determine the prepaid expenses, which may include</p> <ul style="list-style-type: none"> <li>• the per diem interest to the end of the month on the new loan</li> <li>• hazard insurance premium deposits</li> <li>• mortgage insurance premiums, and</li> <li>• any real estate tax deposits needed to establish the escrow account.</li> </ul>  |

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

### 4155.1 3.B.1. 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"> <li>• any purchase money second mortgage</li> <li>• any junior liens over 12 months old</li> <li>• closing costs</li> <li>• prepaid expenses (even if the mortgagee refinancing the loan is the servicing lender)</li> <li>• borrower paid repairs required by the appraisal, and</li> <li>• discount points.</li> </ul> <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><b>Result:</b> The resulting figure is the existing debt.</p>   |

#### 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.

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

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### **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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### **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.

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## 2. Cash Out Refinance Transactions

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

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

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**Change Date** July 6, 2009

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**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.

**Reference:** For information, including self-sufficiency requirements, for three and four unit properties, see [HUD 4155.1 2.B.4](#).

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

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**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  
Borrower Must  
Be Current on  
Mortgage to Be  
Eligible for a  
Cash Out  
Refinance**

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.](#)

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

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

| 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 subordinate 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.  |
| 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 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. |

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## 2. Cash Out Refinance Transactions, Continued

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

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

| <b>If the property has been owned by the borrower as his/her principal residence for ...</b> | <b>Then the mortgage ...</b>   |
|--|--|
| <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>less 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"> <li>• appraiser's estimate of value, or</li> <li>• sales price of the property when acquired.</li> </ul> <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

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**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.

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**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](#).

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## Section C. Maximum Mortgage Amounts on Streamline Refinances

### Overview

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

| Topic | Topic Name   | See Page |
|-------|--|----------|
| 1     | General Information on Streamline Refinances                   | 3-C-2    |
| 2     | Streamline Refinances Without an Appraisal                     | 3-C-3    |
| 3     | Streamline Refinances With an Appraisal (No Credit Qualifying) | 3-C-6    |

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## 1. General Information on Streamline Refinances

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**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.

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**Change Date** May 10, 2009

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**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](#).
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**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](#).

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## 2. Streamline Refinances Without an Appraisal

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**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.
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**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.

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**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.

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## 2. Streamline Refinances Without an Appraisal, Continued

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### 4155.1 3.C.2.c Maximum Insurable Mortgage Calculation for Streamline Refinances Without an Appraisal

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](#).

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### 4155.1 3.C.2.d Applicability of the Mortgage Calculation Process

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.

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## 2. Streamline Refinances Without an Appraisal, Continued

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### 4155.1 3.C.2.e Streamline Refinances For Non Owner Occupant Properties

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](#).
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### 4155.1 3.C.2.f Policy on Subordinate Financing on Streamline Refinances Without 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
  - 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.
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### 3. Streamline Refinances With an Appraisal (No Credit Qualifying)

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**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.

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**Change Date** December 8, 2009

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### 3. Streamline Refinances With an Appraisal (No Credit Qualifying), Continued

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**4155.1 3.C.3.a  
Maximum  
Insurable  
Mortgage  
Calculation for  
Streamline  
Refinances  
With An  
Appraisal**

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.

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### 3. Streamline Refinances With an Appraisal (No Credit Qualifying), Continued

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**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.

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**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.

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