



## PL Summary FHA Mortgagee Letter 2009-32

When: New case numbers assigned on or after November 18, 2009

PL: Locks or submissions as of October 23, 2009.

Overview: FHA is implementing significant revisions to all streamline refinance transactions requirements and putting more restrictions to insure tangible net benefit.

Personal Note: At the FHA seminar in September, HUD specifically said, "Don't be surprised if Streamline Refinances go away all together". As you read through these changes, you will see a trend that makes that statement more apparent. You will also notice that it appears HUD wants to know what the current value of the property is.

### Streamlines Refinance Transactions

#### A. Seasoning

At time of loan application, minimum six months payments on the mortgage required.

Payment History

Owned < 12 months payments 0X30 days.

Owned > 12 months payments 1X30 in last 12 months and 0X30 in last 90 days.

PL: 0x30 in last 12 months & minimum score 640.

#### B. Tangible Net Benefit (must be documented)

Refinancing Fixed Rate to Fixed or ARM to ARM the new PITI must be reducing current payment by 5% or more.

Refinancing ARM to Fixed, the new Fixed Rate must be no more than 2% above current ARM.

Refinancing Fixed to ARM, the new ARM Rate must be at least 2% less than current Fixed rate, reducing the term of the mortgage.

#### C. New Maximum CLTV

If subordinate financing is remaining, the max CLTV is 125%.

PL: No subordinate financing allowed.

For Streamlines w/out appraisal-CLTV is based on original appraised value of property.

For Streamlines w/appraisal-CLTV based on new appraised value.

#### D. New Calculation for Maximum Mortgage Amount

Revised Streamline Refinances w/Out Appraisal (cannot include closing costs or prepaids)

Outstanding principal balance ^

-UFMIP Refund

+New UFMIP

= Maximum new LA

Revised Streamline Refinances w/ Appraisal (lower of the following 2 calculations)

Calculation I: Outstanding balance (as above)

-UFMIP Refund

+ Closing Costs & Prepaid items for a new escrow account

+ New UFMIP

= Maximum new LA

OR

Calculation II: 97.75% of Appraised Value + New UFMI

**E. Discount points may not be included in the new mortgage.** If borrower wants to pay discount points, to refinance, assets must be verified to pay points along with any other financing costs not included in new mortgage amount.

^(including 30 days interest on payoff but cannot include delinquent interest, late charges or escrow shortages)

### **Certifications and Verifications**

**Lender must certify in writing that borrower is employed and has income at time of loan application**

**PL: Requires and does this prior to closing.**

If assets needed to close, again, verify and certify.

**All Credit scores must be entered in FHA Connection**

### **TOTAL Scorecard**

**Total Scorecard should not be used for streamline transactions. If TOTAL is used, loan must be underwritten as R/T (no cash out), not Streamline.**

### **URLA**

Mortgagees may not use the abbreviated version of the URLA. HUD recognizes the importance of borrowers signing/certifying the URLA<sup>^^</sup>. Mortgagees are not allowed to process or underwrite the loan until the borrowers and LO complete and sign the URLA.

<sup>^^</sup> Title 18 U.S.C. 1014, provides in part that whoever knowingly and willfully makes or uses a document containing any false, fictitious, or fraudulent statement or entry, in any matter in the jurisdiction of any department or agency of the United States, shall be fined not more than \$1,000,000 or imprisoned for not more than 30 years or both. In addition, violation of this or others may result in debarment and civil liability for damages suffered by the Department.

**All statements in red are ProLending guidelines and all PL guides override FHA guidelines.**

*This summary is based on information contained in Mortgagee Letter 2009-32. It does not include investor or bank interpretation or overlays. At the time of this writing, no additional, bank or investor information have been published. Nothing included in this summary is to be considered legal advice and should not be used as legal opinion. ProLending does not assume any liability for the use of this newsletter, as this is a summary based exclusively on opinion and should not be considered as legal advice.*



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

**September 18, 2009**

**MORTGAGEE LETTER 2009-32**

**TO: ALL APPROVED MORTGAGEES**

**SUBJECT: Revised Streamline Refinance Transactions**

This Mortgagee Letter provides (1) revised procedures; and (2) reaffirms existing procedures regarding Streamline Refinance transactions. This Mortgagee Letter is effective for new case numbers assigned on or after 60 days from the date of this letter.

**Key Revisions:**

- Seasoning
- Payment history
- Net tangible benefit for the borrower
- Maximum Combined Loan-to-Value
- New Maximum Mortgage Amount for Streamline Refinances **WITHOUT** an Appraisal
- Discounts Points no longer included in Existing Debt for Streamline Refinances **WITH** an Appraisal
- Verification of any assets needed to close
- Certification that borrower is employed and has income
- Elimination of abbreviated Uniform Residential Loan Application (URLA)

**I. Revisions for ALL Streamline Refinance Transactions**

**A. Seasoning**

At the time of loan application, the borrower must have made at least 6 payments on the FHA-insured mortgage being refinanced.

**B. Payment History**

At the time of loan application, the borrower must exhibit an acceptable payment history as described below.

- 1) For mortgages with less than a 12 months payment history, the borrower must have made all mortgage payments within the month due.
- 2) For mortgages with a 12 months payment history or greater, the borrower must have:
  - a) Experienced no more than *one* 30 day late payment in the preceding 12 months,

*AND*

- b) Made all mortgage payments within the month due for the three months prior to the date of loan application.

### **C. Net Tangible Benefit**

The lender must determine that there is a net tangible benefit as a result of the streamline refinance transaction, with or without an appraisal. Net tangible benefit is defined as:

- reduction in the total mortgage payment (principal, interest, taxes and insurances, homeowners' association fees, ground rents, special assessments and all subordinate liens),
- refinancing from an adjustable rate mortgage (ARM) to a fixed rate mortgage,

*OR*

- reducing the term of the mortgage.

Reduction in Total Mortgage Payment: The new total mortgage payment is 5 percent *lower* than the total mortgage payment for the mortgage being refinanced. Example: Total mortgage payment on the existing FHA-insured mortgage is \$895; the total mortgage payment for the new FHA-insured mortgage must be \$850 or less.

This requirement is applicable when refinancing from a Fixed Rate to Fixed Rate, from an ARM to ARM, from a Graduated Payment Mortgage (GPM) to Fixed Rate, from GPM to ARM, from a 203(k) to 203(b) and from a 235 to 203(b).

Fixed Rate to ARM: Fixed rate mortgages may be refinanced to a one-year ARM provided that the interest rate on the new mortgage is at least 2 percentage points below the interest rate of the current mortgage

ARM to Fixed Rate: The interest rate on the new fixed rate mortgage will be no greater than 2 percentage points above the current rate of the one-year ARM. For hybrid ARMs, the total mortgage payment on the new fixed rate mortgage may not increase by more than 20 percent. Example: total mortgage payment on the hybrid ARM is \$895; the total mortgage payment for the new fixed rate mortgage must be \$1,074 or less.

Reduction in Term: For transactions that include a reduction in the mortgage term, that loan must be underwritten and closed as a rate and term (no cash-out) refinance transaction.

Investment Properties/Secondary Residences: In addition to meeting the requirement for a reduction in the total mortgage payment, investment properties or secondary residences are *not* eligible for streamline refinancing to ARMs.

#### **D. Certifications and Verifications**

When submitting the loan for insurance endorsement, the lender must include a signed and dated cover letter on their letterhead certifying<sup>1</sup> that the borrower is employed and has income at the time of loan application.

If assets are needed to close, the lender must verify and document those assets.

The lenders must also include the pay-off statement in the case binder.

#### **E. Credit Score**

If a credit score is available, the lender must enter the credit score into FHA Connection. If more than one credit score is available, lenders must enter all available credit scores.

#### **F. Maximum Combined Loan to Value**

If subordinate financing is remaining in place, the maximum combined loan-to-value ratio is 125 percent.

- For streamline refinance transactions **WITHOUT** an appraisal, the CLTV is based on the original appraised value of the property.
- For streamline refinance transactions **WITH** an appraisal, the CLTV is based on the new appraised value.

#### **G. TOTAL Scorecard**

Lenders should not use TOTAL on streamline refinance transactions. If a lender uses TOTAL, that loan must be underwritten and closed as a rate and term (no cash-out) refinance transaction.

#### **H. Uniform Residential Loan Application (URLA)**

Mortgagees may no longer use an abbreviated version of the URLA. Due to various disclosure requirements and our long-standing belief that borrowers are best served when certifications they must make are divulged as early as possible in the loan application

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<sup>1</sup> Title 18 U.S.C. 1014, provides in part that whoever knowingly and willfully makes or uses a document containing any false, fictitious, or fraudulent statement or entry, in any matter in the jurisdiction of any department or agency of the United States, shall be fined not more than \$1,000,000 or imprisoned for not more than 30 years or both. In addition, violation of this or others may result in debarment and civil liability for damages suffered by the Department.

process, the application for mortgage insurance must be signed and dated by the borrower(s) before the loan is underwritten. Mortgagees are permitted to process and underwrite the loan after the borrowers and interviewer complete the initial URLA and initial form HUD-92900A, HUD/VA Addendume to Uniform Residential Loan Application.

## **II. Revised Streamline Refinance Transactions WITHOUT an Appraisal**

The maximum insurable mortgage cannot exceed:

- The outstanding principal balance<sup>2</sup> *minus* the applicable refund of the UFMIP,  
PLUS
- The new UFMIP that will be charged on the refinance.

## **III. Revised Streamline Transaction WITH an Appraisal**

The maximum insurable mortgage is the *lower* of:

- 1) Outstanding principal balance<sup>2</sup> *minus* the applicable refund of UFMIP, plus closing costs, prepaid items to establish the escrow account and the new UFMIP that will be charge on the refinance;
- OR*
- 2) 97.75 percent of the appraised value of the property plus the new UFMIP that will be charged on the refinance.

Discount points may not be included in the new mortgage. If the borrower has agreed to pay discount points, the lender must verify the borrower has the assets to pay them along with any other financing costs that are not included in the new mortgage amount.

## **IV. Unchanged Streamline Refinance Transactions**

The following on streamline refinance transactions remains unchanged.

- Maximum mortgage limits and maximum mortgage term 4155.1 3.C.2.a and b
- Streamline Refinances for investors/secondary residences 4155.1 3.C.2.d and e
- Cash back at closing 4155.1 6.C.1.a
- Permissible geographic areas 4155.1 6.C.1.b

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<sup>2</sup> 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.

- Appraisals 4155.1 6.C.1.c and d
- HUD LDP and GSA exclusion lists 4155.1 6.C.1.e
- Credit Reports 4155.1 6.C.1.f
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- Credit Qualifying [except maximum insurable mortgage] 4155.1 6.C.2
- Holding period for assumed loans 4155.1 6.C.3.b
- Adding/Deleting Borrowers 4155.1 6.C.3.d
- Withdrawn Condominium Approval 4155.1 6.C.3.e
- Seven Unit Limitation 4155.1 6.C.3.f
- No Cost Refinances 4155.1 6.C.4.a
- 203(k) to 203(b) [completion of rehabilitation] 4155.1 6.C.4.i
- 235 to 203(b) [overpaid subsidy and junior liens] 4155.1 6.C.4.j

If you have any questions regarding this Mortgagee Letter, please contact the FHA Resource Center at 1-800-CALL-FHA (1-800-225-5342). Persons with hearing or speech impairments may access this number via TTD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483).

Sincerely,

David H. Stevens  
Assistant Secretary for Housing-  
Federal Housing Commissioner

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