

Details On The New FHA Short Refi Program

Here are some of the details from the recent published on the new FHA short refinance program.

On March 26, 2010, the Department of Housing and Urban Development (HUD) and the Department of the Treasury (Treasury) announced enhancements to the existing Making Home Affordable Program (MHA) and Federal Housing Administration (FHA) refinance program that will give a greater number of responsible borrowers an opportunity to remain in their homes. These enhancements are designed to maintain homeownership by providing borrowers, who owe more on their mortgage than the value of their home, opportunities to refinance into an affordable FHA loan. This opportunity allows borrowers who are current on their mortgage to qualify for an FHA refinance loan provided that the lender or investor writes off the unpaid principal balance of the original first lien mortgage by at least 10 percent. ...

Eligibility

Participation is voluntary and requires the consent of lien holders. In order for a loan to be eligible, the following conditions must be met:

1. The homeowner must be in a negative equity position;
2. The homeowner must be current on the existing mortgage to be refinanced;
3. The homeowner must occupy the subject property (1-4 units) as their primary residence;
4. The homeowner must qualify for the new loan under standard FHA underwriting requirements and possess a “FICO based” decision credit score greater than or equal to 500;
5. The existing loan to be refinanced must not be a FHA-insured loan;
6. The existing first lien holder must write off at least 10 percent of the unpaid principal balance;
7. The refinanced FHA-insured first mortgage must have a loan-to-value ratio of no more than 97.75 percent;
8. Non-extinguished existing subordinate mortgages must be re-subordinated and the new loan may not have a combined loan-to-value ratio greater than 115 percent;
9. For loans that receive a “refer” risk classification from TOTAL Mortgage Scorecard (TOTAL) and/or are manually underwritten, the homeowner’s total monthly mortgage payment, including the first and any subordinate mortgage(s), cannot be greater than 31 percent of gross monthly income and total debt, including all recurring debts, cannot be greater than 50 percent of gross monthly income;

10. FHA mortgagees are not permitted to use premium pricing to pay off existing debt obligations to qualify the borrower for the new loan;
11. FHA mortgagees are not permitted to make mortgage payments on behalf of the borrowers or otherwise bring the existing loan current to make it eligible for FHA insurance; and
12. The existing loan to be refinanced may not have been brought current by the existing first lien holder, except through an acceptable permanent loan modification as described below.

Principal Write off

The mortgagee must ensure that the existing first lien holder writes off at least 10 percent of the unpaid principal balance on the first lien. The short payoff serves as payment in full for any debt extinguished.

Combined Loan-to-Value Ratio

Notwithstanding 24 CFR 203.32(c)(3), the combined amount of the new FHA-insured first mortgage and any subordinate non FHA-insured lien may not exceed 115 percent.

Second Lien Extinguishment and Servicer Incentive

To facilitate the refinancing of new FHA-insured loans under this program, Treasury will provide incentives to existing second lien holders who agree to full or partial extinguishment of liens effective on all case numbers assigned on or after September 7, 2010. To be eligible for incentives, the existing second lien mortgage servicer must: Execute a Servicer Participation Agreement with Treasury to participate in the Making Home Affordable Program; and, Agree to fully release the borrower from all obligations to repay the amount forgiven.

Existing second mortgage lien servicers will be entitled to a one time incentive of \$500 for each successful closing. Existing second mortgage lien investors will be entitled to an incentive based on the combined loan to value of the existing lien and all senior liens associated with the mortgage.