

Refinance of Borrowers in Negative Equity Positions (Short Refinance)

Provides current but underwater non-FHA borrowers with a path to an affordable FHA mortgage

BACKGROUND AND PURPOSE

The Federal Housing Administration’s (FHA) Refinance of Borrowers in Negative Equity Positions (Short Refinance) is designed to help responsible non-FHA homeowners who are underwater but current on their mortgage to refinance into a FHA-insured mortgage. The goal of the program is to stabilize housing markets and assist responsible homeowners who owe more on their mortgage than the underlying property is worth due to price declines in their local market. Lender participation is voluntary and they must write off the unpaid principal balance of the original first lien mortgage by at least 10 percent.

To be eligible, the mortgage must not be currently owned or guaranteed by FHA. Borrowers must be current on their mortgage payments, occupy the house as a primary residence, and be eligible for the new FHA loan under standard FHA underwriting

requirements except for certain credit, debt-to-income, and new mortgage requirements specific to the Short Refinance program. The program first went into effect in 2010; in 2014, HUD announced that the program would be extended for an additional two years through December 31, 2016.

BORROWER CRITERIA

Income limits: This program has no income limits.

Credit: The borrower’s credit score must be greater than or equal to 500 for eligibility, and greater than or equal to 580 for loan-to-value ratios greater than or equal to 90 percent.

Occupancy and ownership of other properties: Permitted, but the borrower may not have any

PROGRAM NAME	Refinance of Borrowers in Negative Equity Positions (Short Refinance)
AGENCY	Federal Housing Administration
EXPIRATION DATE	December 31, 2016
APPLICATIONS	Lenders may access FHA’s Lender Requirements and the online lender application at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr
WEB LINK	http://portal.hud.gov/hudportal/documents/huddoc?id=factsheetindustryshortrefi.pdf
CONTACT INFORMATION	Telephone: (800) CALL-FHA (225-5342) Email: answers@hud.gov . Lenders that want to apply for FHA approval should include the words “New Applicant” in the email subject line and include a contact person and phone number in the email body so that a Lender Approval representative may contact you.
APPLICATION PERIOD	Ends December 31, 2016
GEOGRAPHIC SCOPE	National

FHA-insured mortgages. The borrower must occupy the property (one to four units) as his or her primary residence.

LOAN CRITERIA

Loan limits: FHA mortgage limits vary by the number of units and by the county or Metropolitan Statistical Area in which the property resides. HUD issues a Mortgagee Letter announcing the new mortgage limits every year.

Loan-to-value limits: The refinanced FHA-insured first mortgage must have an LTV ratio of no more than 97.75 percent. Any non-extinguished existing subordinate mortgage must be re-subordinated to the new loan and all liens together may not have a combined LTV ratio greater than 115 percent except for second liens held by governmental entities, for which there is no maximum combined LTV.

Adjustable-rate mortgages: The new loan can be financed with a fixed-rate or adjustable-rate mortgage.

Homeownership counseling: The program does not require housing counseling.

Mortgage insurance: Standard FHA mortgage insurance premiums apply.

Debt-to-income ratio: For mortgages that receive a risk classification of "Accept" from FHA's Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard, there are no restrictions. For mortgages that receive a risk classification of "Refer" from FHA's TOTAL Mortgage scorecard, 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. Total debt, including all recurring debts, cannot be greater than 50 percent of gross monthly income. If total debt does not exceed 48 percent of gross monthly income, the total monthly mortgage payment may be up to 35 percent of gross monthly income. In the event that the borrower has student loan debt and is not yet in repayment, as is the case for current students, FHA's policy is to include 2 percent of the total student loan balance in the debt-to-income calculation. For example, if the student has a current debt of \$20,000, then FHA would add an estimated \$400 monthly student loan payment to the DTI calculation.

Potential Benefits

- A borrower is less likely to default with a lower mortgage amount, and the lender will garner the financial benefits of originating a new FHA-insured mortgage – fees, charges, servicing rights, etc.
- The program helps to stabilize communities that have seen a decline in housing prices by preventing potential foreclosures by underwater borrowers.

POTENTIAL BENEFITS

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POTENTIAL CHALLENGES

The lender of the existing mortgage must voluntarily agree to write down a portion of the principal.

The lender must be an FHA-approved lender to process the refinance.

- FHA Short Refinance transactions are exempt from a bank's compare ratios. This means that a bank can make loans without regard to typical risk factors such as credit score because the performance of the loans will not influence the bank's performance record. Short Refinance can also remove at-risk loans from the bank's regular FHA performance record.

Potential Challenges

- The lender of the existing mortgage must voluntarily agree to write down a portion of the principal.
- The lender must be an FHA-approved lender to process the refinance.
- The lender must ensure that a Direct Endorsement underwriter has reviewed the appraisal, though lenders do not have to be a DE.
- The lender must either be active in non-FHA lending, or be able to convince other lenders to write down a portion of the principal, in order to have a pool of eligible borrowers.
- The program will terminate in December 2016.

RESOURCES

General information

<http://portal.hud.gov/hudportal/documents/huddoc?id=factsheetindustryshortrefi.pdf>

Application

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr

HUD Handbook 4000.1 (includes program requirements)

<http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf>

- See section II.A. 2.b.i for detail on credit requirements
- See section II.A.8.e.ii.(C) for detail on LTV and loan limits
- See section A.1.3 for lender approval requirements
- See Appendix 1.0 for all mortgage insurance premium rates

FHA mortgage limits

<https://entp.hud.gov/idapp/html/hicostlook.cfm>

FHA TOTAL Mortgage Scorecard

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/total