

Streamline Refinance

Helps existing FHA borrowers refinance to a more affordable mortgage

BACKGROUND AND PURPOSE

The Streamline Refinance program allows FHA-approved lenders to refinance current FHA-insured loans to a lower interest rate or to a different type of mortgage (fixed- or adjustable-rate mortgage). Streamline Refinance refers only to the amount of documentation and underwriting that the lender must perform; it does not mean that there are no costs involved in the transaction. Borrowers may elect not to provide income and credit documentation in exchange for a smaller discount on their interest rate. The time and cost savings mostly come from the fact that a new appraisal is not required. No cash may be taken out on mortgages refinanced using the Streamline Refinance program. In order to offer the program, lenders must be FHA-approved supervised lenders and be approved by FHA as a direct endorsement (DE) lender.

The ability to refinance existing FHA loans without regard to the loan-to-value (LTV) ratio, credit score, or other factor originally used to qualify the borrower lowers FHA’s risk because borrowers are less likely to default on their mortgages if their payments are more affordable. Therefore, FHA’s requirements are very minimal. While lenders may set their own qualifying requirements, FHA has exempted these transactions from inclusion in “compare ratios,” a measure of the lender’s default rate compared to other FHA lenders in the area, in an attempt to encourage lenders to perform these transactions for borrowers who might not otherwise qualify based on their circumstances.

FHA has allowed streamlined refinancing for borrowers who are current on their existing FHA-insured

PROGRAM NAME	Streamline Refinance
AGENCY	Federal Housing Administration
EXPIRATION DATE	Not Applicable
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/HUD?src=/program_offices/housing/sfh/ins/streamline
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	Continuous
GEOGRAPHIC SCOPE	National

mortgages since 1986. In 2011, FHA added the net-tangible benefit test to ensure the refinance would offer the borrower a long-term benefit of lower monthly payments. The program was enhanced in 2012, when FHA significantly reduced the mortgage insurance premiums (MIP) on the refinance of a previous FHA insured loan endorsed on or before May 31, 2009.

BORROWER CRITERIA

Income limits: This program has no income limits.

Credit: There are two types of Streamline Refinances: credit qualifying, where the borrower provides income and credit documentation and the lender performs a credit check; and non-credit qualifying, where no credit check is performed. Interest rates on non-credit qualifying transactions may be higher due to the increased risk. Credit qualifying procedures must be followed in cases where the refinance is creating a substantial change in the mortgage, such as an increase of more than 20 percent in payments, or removing a borrower. Otherwise, it is the borrower's choice. In both cases, the lender must verify that the mortgage payment history meets FHA guidelines.

Occupancy and ownership of other properties: Owners of one- to four-unit primary residences, HUD-approved secondary residences, and non-owner occupied properties (i.e., investment properties) with existing FHA-insured mortgages can all use the program.

Payment history requirement: Borrowers must have made at least six payments on the FHA-insured mortgage that is being refinanced, at least six months must have passed since the first payment due date of the FHA-insured mortgage that is being refinanced, and at least 210 days must have passed from the closing date of the FHA-insured mortgage that is being refinanced. If the borrower assumed the mortgage that is being refinanced, they must have made six payments since the time of assumption.

LOAN CRITERIA

Loan limits: Generally, streamline refinances must comply with statutory FHA mortgage limits except by the amount of the upfront mortgage insurance premium (UFMIP). 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: There are no LTV or combined LTV limits. The maximum allowable mortgage amount is based on the principal balance of the FHA-insured loan being refinanced.

Adjustable-rate mortgages: An ARM may be refinanced to another ARM only if the property is a primary residence. A fixed-rate mortgage may be refinanced to a one-year ARM as long as the new interest rate is at

POTENTIAL BENEFITS

FHA Streamline 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. Streamline Refinance can also remove at-risk loans from the bank's regular FHA performance record.

The reduced underwriting requirements and waiver of appraisal cuts down significantly on the amount of time it takes to refinance the loan.

POTENTIAL CHALLENGES

Lenders must be FHA-approved and must be approved for direct endorsement.

A limited pool of borrowers is eligible for this program because only existing FHA mortgage holders who are current on their mortgages are eligible, and those who are not struggling to make payments may have more competitive refinancing options.

least 2 percentage points below the current interest rate of the fixed-rate mortgage.

Homeownership counseling: Not required.

Mortgage insurance: The UFMIP is 1 basis point or 0.01 percent of the loan value, and the annual mortgage insurance premium (MIP) is 55 bps or 0.55 percent of the loan value.

Debt-to-income ratio: The program does not require lenders to compute the DTI ratio for non-credit qualifying Streamline Refinances. For credit-qualifying refinances, the lender must calculate the borrower's DTI. However, there is no hard and fast DTI cutoff because a borrower can always convert to a non-credit qualifying transaction. 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.

Net tangible benefits requirement: The transaction must result in a tangible benefit to the borrower of either a 5 percent reduction to the principal and interest of the mortgage payment plus the annual mortgage insurance premium, or refinancing from an adjustable-rate mortgage to a fixed-rate mortgage. If refinancing an ARM to an ARM, the interest rate must be at least 2 percentage points lower than the current interest rate.

Potential Benefits

- FHA Streamline 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. Streamline Refinance can also remove at-risk loans from the bank's regular FHA performance record.
- The reduced underwriting requirements and waiver of appraisal cuts down significantly on the amount of time it takes to refinance the loan.
- The insurance provided through this program protects community banks from credit risk.

- This program allows community banks to offer a product to existing FHA borrowers who would not qualify for other mortgage refinance products and may reduce their monthly payments. Loans originated through this program may be positively considered under the Community Reinvestment Act, depending on the geography or incomes of the participating borrowers.

Potential Challenges

- Lenders must be FHA-approved and must be approved for direct endorsement.
- A limited pool of borrowers is eligible for this program because only existing FHA mortgage holders who are current on their mortgage are eligible, and those who are not struggling to make payments may have more competitive refinancing options.
- Findings under FHA's Technology Open to Approved Lenders (TOTAL) mortgage scoring system are invalid. Any underwriting that may be necessary under a credit-qualifying transaction must be done manually.

SIMILAR PROGRAMS

- Fannie Mae Refi Plus™
- Freddie Mac Relief RefinanceSM

RESOURCES

General information

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

HUD Handbook 4000.1

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

- Refer to section II.A.5.a. for manual underwriting guidelines
- Refer to section II.A.5.d. for DTI requirements
- Refer to section II.A.8.d. for program requirements
- Refer to Appendix 1.0 for mortgage insurance premium requirements

Applications

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

HUD Handbook 4155.2 section 2.A.1.d (DE lender application and approval process)

http://portal.hud.gov/hudportal/documents/huddoc?id=4155-2_2_secA.pdf

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