"Cash-out" refinances for debt consolidation represent considerable risk, especially if the borrowers have not had an attendant increase in income. Such transactions must be carefully evaluated.

1-12 STREAMLINE REFINANCES. 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 $250. Streamline refinances can be made with or without an appraisal. On streamline refinances with an appraisal, Form HUD 92564-VC is required, but the Homebuyer Summary is not required. FHA does not require repairs to be completed (except for lead-based paint repairs) on streamline refinances with appraisals; however, the lender may require completion of repairs as a condition of the loan.

HUD's Credit Alert Interactive Voice Response System (CAIVRS) need not be checked, but HUD's Limited Denial of Participation (LDP) and General Services Administration (GSA) exclusion lists are still required checks for all borrowers. FHA does not require a credit report (except for the credit-qualifying streamline refinances described below) or a termite inspection on this type of loan, but the lender may require either one or both as part of its credit policy.

Lenders may use an abbreviated version of the Uniform Residential Loan Application (URLA) that omits sections IV, V, VI, and a-k of VIII, provided all other required information is captured. Furthermore, while the lender must assure itself that it is in compliance with Equal Credit Opportunity Act (ECOA) and all other regulations, the loan application need not be signed by the borrower(s) until loan closing.

Streamline refinance processing and underwriting instructions are described below. The mortgage amount limits may never exceed the statutory limits except by the amount of any new upfront MIP.

A. Streamline Refinances WITHOUT an Appraisal. The maximum insurable mortgage is the *lower* of the two calculations shown below:

1. Original Loan Amount: The original principal balance on the mortgage (which will include any upfront mortgage insurance premium) plus the new upfront premium that will be charged on the refinance, or

2. Existing Debt: Add the sum of the existing FHA insured first lien, closing costs, reasonable discount points and the prepaid expenses necessary to establish the escrow account, and subtract any refund of upfront mortgage insurance premiums (UFMIP). The existing first lien may include the interest charged by the servicing lender when the payoff is not received on the first day of the month as is

typically assessed on FHA mortgages, but may not include delinquent interest, late charges or escrow shortages.

This mortgage calculation process applies only to owner-occupied properties. Investment properties, even if originally acquired as principal residences by the current borrowers, may only be refinanced for the outstanding principal balance. The term of the mortgage is the lesser of 30 years or the remaining term of the mortgage plus 12 years.

Streamline refinances by investors or for secondary residences may only be made without an appraisal and may be made solely in the business entity's name if previously insured in the business entity's name. The new security instruments will contain FHA's standard provision permitting acceleration of the mortgage upon assumption by an investor or as a secondary residence; however, FHA does not intend to 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, a streamline refinance without an appraisal does not "convert" the mortgage to one eligible for assumption by an investor.

B. Streamline Refinance WITH an Appraisal (No Credit Qualifying). The maximum insurable mortgage is the *lower* of the appropriate loan-to-value ratio applied to the appraiser's estimate of value or the sum of the existing indebtedness and related closing costs and prepaid expenses for the refinance; both are described below.

1. LTV Ratio Applied to Appraised Value: Multiply the appraised value of the property by the appropriate factor as shown in the chart below for the property's value and the State where it the property is located. (A list of states and their closing costs averages may be found in Appendix II.)

Maximum Loan-to-Value Percentages

States with Average Closings Costs *At or Below* 2.1 Percent of Sales Price

- **98.75 percent**: For properties with appraised values equal to or less than $50,000.
- **97.65 percent**: For properties with appraised values in excess of $50,000 up to $125,000
- **97.15 percent**: For properties with appraised values in excess of $125,000.

States with Average Closings Costs *Above* 2.1 Percent of Sales Price

- **98.75 percent**: For properties with appraised values equal to or less than $50,000.
- **97.75 percent**: For properties with appraised values in excess of $50,000.

2. Existing Debt: Add the sum of the existing FHA insured first lien, closing costs, reasonable discount points and the prepaid expenses necessary to establish the escrow account, and subtract any refund of upfront mortgage insurance premiums (UFMIP) as described below. The existing first lien may include the interest charged by the servicing lender when the payoff is not received on the first day of the month as is typically assessed on FHA mortgages, but may not include delinquent interest, late charges or escrow shortages.

C. "**Credit-Qualifying" Streamline Refinances.** “Credit-qualifying” streamline refinances contain all the normal features of a streamline refinance, but provide a level of assurance of continued performance on the mortgage. The lender must provide evidence that the remaining borrowers have an acceptable credit history and ability to make payments.

The following must be considered when processing a credit-qualifying transaction:

1. **Mortgage Amount.** The maximum loan amount is the same as in A (without appraisal) or B (with appraisal) above, as appropriate.

2. **Credit Documentation/Qualifying.** The lender must provide a verification of income, a credit report, compute the debt-to-income ratios and determine that the borrower will continue to make mortgage payments.

3. **Purposes**. Credit-qualifying streamline refinances may be used for the following:

a. When a change in the mortgage term will result in an increase in the mortgage payment. (This is only permitted for owner-occupied principal residences, secondary residences meeting the requirements of paragraph 1-3, and those investment properties purchased by governmental agencies and eligible nonprofit organizations described in paragraph 1-5.)

b. When deletion of a borrower or borrowers will trigger the due-on-sale clause.

c. Following an assumption of a mortgage that does not contain restrictions (e.g., due-on-sale clause) limiting assumptions only to creditworthy borrowers *and* the assumption occurred less than six months previously.

d. Following an assumption of a mortgage in which the transferability restriction (i.e., due-on-sale clause) was not triggered, such as in a property transfer resulting from a divorce decree or by devise or descent *and* the assumption occurred less than six months previously.

D. Additional Information on Streamline Refinances.

1. **Appraisal, Termite Inspection, and Credit Report Fees.** We do not require an appraisal, termite inspection, or credit report on streamline refinances (except credit qualifying streamline refinances). However, the associated fees may be paid by the borrower out-of-pocket (i.e., not financed) if law, banking regulations, or its secondary market investors require the lender to obtain these services on a streamline refinance made without a FHA appraisal.

2. **Cash-to-Close.** Borrowers are not required to provide evidence of cash-to-close.

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3. **Withdrawn Condominium Approvals.** If approval of a condominium project has been withdrawn, FHA will insure only streamline refinances *without* appraisals for that condominium project.

4. **Underwriting.** Mortgage credit underwriting is not required except for credit qualifying streamline refinance. The loan application and form HUD 92900-WS must be submitted; however, the sections regarding income, assets, and debts and

obligations need not be completed (unless the borrowers are credit qualified).

5. **Shortening the Term of Mortgage.** A mortgage on a principal residence may be refinanced to a shorter-term mortgage, provided the new monthly principal and interest payment increases no more than $50. (The $50 latitude is not available for mortgages on investment properties or secondary residences, unless the borrower qualifies under the provisions described in paragraphs 1-3 and 1-4.) Since streamline refinances are designed to reduce the borrower's *principal and interest payments* on a current FHA-insured mortgage, that portion of the borrower's payment for escrowed items need not be considered.

6. **Delinquent Mortgages.** Delinquent mortgages are not eligible for streamline refinancing until the loan is brought current. However, if the mortgage is delinquent by no more than two monthly payments, the refinancing lender may pay the borrower's mortgage to bring the payments current provided no obligation is placed on the borrower to repay the funds used to bring the mortgage current.

7. **"No-Cost" Refinances.** "No-cost" refinances, in which the lender charges a premium interest rate to defray the borrower's closing costs and/or prepaid items, are permitted. The lender may also offer an interest-free advance of amounts equal to the present escrow balances on the existing mortgage to establish a new escrow account.

8. **Holding Period before Eligibility.** A borrower who assumed or took title subject to an FHA-insured mortgage, without being credit qualified and with the previous mortgagors receiving a release of liability, must have owned the property for at least six months before being eligible for the streamline refinance program without credit qualifying. This rule applies to mortgages that do not contain restrictions limiting the assumption only to creditworthy assumptors. Typically those mortgages were made prior to December 1989.

9. **Adding or Deleting Individuals on Title.** Individuals may be *added* to the title on a streamline refinance without credit worthiness review and without triggering due-on-sale clauses. Individuals can be deleted from the title on a streamline refinance only under the circumstances described in paragraph 1-12 C, above or: