

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 factors 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.

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: https://www.hud.gov/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

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. Credit qualifying procedures must be followed in cases where the refinance removes a borrower. In both cases, the lender must verify that the mortgage payment history meets FHA guidelines. Lenders may also impose overlays and require some form of credit and/or income review beyond those required by FHA.

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/mortgage seasoning 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. The borrower must have made all mortgage payments for all mortgages on the property within the month due for the six months prior to case number assignment and have no more than one 30-day late payment for the previous six months for all mortgages on the property.

LOAN CRITERIA

Loan limits: Streamline refinances are not subject to the FHA mortgage limits but are subject to maximum mortgage amounts that are based upon the outstanding balance of the existing mortgage.

Loan-to-value limits: Property appraisals are not required. 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 and the requirements of the net tangible benefit test have been met. A fixed-rate mortgage may be refinanced to a one-year ARM as long as the new interest rate is at least 2 percentage points below the current interest rate of the fixed-rate mortgage.

Homeownership counseling: Not required.

Mortgage insurance: The mortgage insurance premiums follow the same requirements as Section 203(b) mortgages except Streamline

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 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.

Refinance of mortgages that were endorsed on or before May 31, 2009 where 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. Since Streamline Refinances do not obtain appraisals, they utilize the value of the property from the previous FHA loan to determine the LTV for purpose of applying MIPs.

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 the borrower has student loan debt, regardless of the payment status, FHA's policy is to include either the actual documented payment, provided the payment will fully amortize the loan over its term or the greater of 1 percent of the total student loan balance or the monthly payment reported on the borrower's credit report in the debt-to-income calculation.

Net tangible benefits requirement: The transaction must result in a tangible benefit to the borrower through either a rate and/or term reduction. The level of rate reduction varies based upon the fixed- or adjustable-rate characteristics of both loans. See Handbook 4000.1 II.A.8.d.vi for details of the Net Tangible Benefit requirements.

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 receive favorable consideration under the CRA, depending on the geography or income 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

Direct access to the following web links can be found at <https://www.fdic.gov/mortgagelending>.

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