



## LINKS

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Today, as part of the Obama Administration's commitment to continuously improve housing relief efforts, we announced adjustments to FHA programs to provide additional refinancing options to homeowners who owe more than their home is worth. These adjustments will provide an option for qualifying homeowners to be refinanced into a FHA loan as long as they are current on their mortgage and their lender reduces their total mortgage debt by at least 10% of the loan amount. The new FHA loan will have a balance closer to the current value of the home—giving homeowners a path to regain equity in their homes and an affordable monthly payment.

Total mortgage debt for the borrower after the refinancing cannot be greater than 115% of the current value of the home—including both first and any other mortgages. Moving beyond many previous efforts focused exclusively on affordability, this will secure affordability and focus on bringing the value of underwater borrowers' loans closer to the current value of their homes through principal writedowns.

Detailed guidelines will be announced by an FHA Mortgagee Letter in the near future. We will move to implement this as quickly as possible and expect it to be available within the next few months. Let me provide an overview for you of the key features of this refinancing option.

### **FHA Refinance Option for Underwater Homeowners—Encouraging Responsible Refinancings**

- Voluntary option for lenders and borrowers with mortgages not currently insured by FHA.
- Encourages lenders and borrowers to work together, when appropriate, to restructure debts.
  - Those loans that have a minimum writedown of at least 10% and a total mortgage loan to value of less than 115%.
- Eligible underwater loans are refinanced into new FHA-insured loans on standard FHA refinance terms for documentation, income ratios and complete underwriting.
- Terms of FHA refinancing:
  - FHA loan will be equal to no more than 97.75% of the value of the home.
  - Combined mortgage debt must be written down to a maximum of 115% of the current value of the home.
  - Standard mortgage insurance premium structure will apply.
- Mandatory principal writedown as part of refinance.
- Minimum writedown by lender of at least 10% of the unpaid balance of the original loan.

- Reduced monthly mortgage payments to facilitate sustainable homeownership
    - Monthly mortgage payment set at prevailing FHA interest rate.
    - Total monthly mortgage payment, including for second mortgage, will not be greater than approximately 31% of income and total debt service including all forms of household debt will not be greater than approximately 50%, except for some borrowers with especially strong credit histories.
  - Existing lenders can retain second mortgages on the property, but only up to a combined 115% of the current value of the home.
    - If there is an existing mortgage that is not extinguished, holders must agree to re-subordinate and extinguish any amount over 115% of the current value of the home.
- Homeowner Eligibility
- Homeowners must be current on their mortgage payments.
  - Homeowner must occupy the home as their primary residence and fully document their income.
  - Homeowners must qualify under standard FHA borrower guidelines.
  - Homeowners must have a FICO credit score of at least 500.
  - Existing lenders' choice to consent for an FHA refinancing of this type is voluntary given the principal writedown requirement. Thus, not all homeowners who meet above criteria will receive an FHA refinanced loan.
  - As with any loan forgiveness, the short refinancing will be reflected on borrowers' credit score.
- Performance of these refinanced loans will not count against lenders for their Credit Watch scores, if the above parameters are met.

Up to \$14 billion in TARP funding will be allocated to support the FHA refinance options, though we expect less to be needed. These funds will be allocated to the extinguishments of second liens, servicer incentives, and coverage for some share of potential losses resulting from the newly refinanced loans.

#### **Example of a Typical FHA Refinance**

- **In 2006:** Family A took out a 30-year fixed mortgage with a balance of \$250,000 and an interest rate of 9.0%. Their monthly payment was about \$2,000 per month.
- **Today:** Home prices have dropped and Family A's home is worth \$180,000.
- **With a FHA Refinance:** Family A's loan balance will be reduced to \$207,000 and their monthly payment will fall to about \$1300 per month. **This will reduce their principal balance by about \$33,000 and reduce their monthly payments by about \$700 per month, saving the family**

**nearly \$42,000 over the next 5 years.**

	<b>Existing Mortgage</b>	<b>FHA Refinance</b>
Balance	\$240,000	\$207,000
Remaining	26	30
Interest Rate	9.0%	6.5%
Monthly	\$2,000	\$1,300
Savings	<b>\$33,000 principal reduction; \$700 in savings per</b>	

### Questions and Answers

**Q: Who will qualify for this option?**

**A:** *This new option is for borrowers who are not currently insured by FHA, current on their mortgage payment, but underwater on their mortgage. By requiring a meaningful principal writedown in conjunction with the newly refinanced loan, borrowers will have a more sustainable loan that will be more affordable. Additionally, borrowers will have an opportunity to refinance into current mortgage rates, which are at historically low levels.*

*To qualify, the borrower must meet FHA underwriting requirements: the new first loan must be no greater than 97.75% of the current value of the home; borrowers must be current on their loan; and FHA underwriting requirements must be met. Additionally, for the new refinanced loan to be counted separately towards lender performance monitoring through Credit Watch—the system by which FHA suspends or terminates lenders for high default rates—the lender will be required to write down at least 10% of the unpaid balance of the original loan and the total mortgage debt after the writedown must be no greater than 115% of the home’s value.*

**Q: Why aren’t borrowers currently in FHA-insured loans eligible for this principal forgiveness?**

**A:** *FHA-insured borrowers are currently eligible for extensive loss mitigation assistance to prevent foreclosure and make mortgage payments more affordable. FHA is currently prohibited by statute from offering explicit principal forgiveness to FHA-insured loans.*

**Q: What is the impact of this extra risk on FHA?**

**A:** *As the new loan must conform to FHA’s standard underwriting requirements, the new loan should be similar to other refinanced loans within FHA. However, TARP funds will also be allocated to provide additional coverage for a share of potential losses from these loans.*

**Q : Is it correct that FHA's existing refinance program does not have a maximum CLTV on a re-subordinated second lien or a specific writedown requirement?**

**A:** Correct. Currently, we do not have a maximum CLTV cap on re-subordinated second liens. However, as part of our new option, loans with a CLTV of up to 115% and at least a 10% principal writedown will be excluded from Credit watch data.

These changes announced today are the latest in the Administration's ongoing efforts to help troubled borrowers avoid foreclosure, and I am proud FHA continues to play such a vital role in these efforts. For more details of today's announcement, click onto [Housing Program Enhancements Offer Additional Options for Struggling Homeowners](#).

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