FHA refinance guidelines

What is an FHA refinance?

An FHA refinance lets you replace your current FHA loan with a new loan that has a better interest rate or betters terms. You can get cash from your home equity, too. You get a new mortgage when you refinance, and you need to complete a new application and pay new closing costs.

FHA refinance options

When you would like to refinance your FHA mortgage with a new FHA loan, the options available to you include …

• FHA cash-out refinance
• FHA streamline refinance

An FHA cash-out refinance allows you to convert your home's equity into cash you can use to consolidate higher interest debts or pay for major expenses. Streamline refinances let you lower your interest rate with less paperwork and faster closings.

FHA cash-out refinance

If you need cash to consolidate debts or pay for expenses, you can choose an FHA cash out refinance. This lets you tap into your home's equity by refinancing your current mortgage for more than you owe and taking the difference in cash. Many times with a cash-out refinance, your total monthly mortgage payment increases. You will likely need to pay a new set of closing costs, too.

Click here to view FHA Cash Out Video

To get approved for an FHA cash-out refinance, you typically need to have a good credit score and show you have sufficient income to make the monthly payments. Lenders usually have guidelines for the amount of home equity you need to qualify for the loan as well as limits on your total monthly debt payments. You are also typically required to be current on your mortgage payments.

FHA streamline refinance

With an FHA streamline refinance, you replace your current FHA mortgage with a new FHA mortgage that has a better rate or better terms. You can also change from an adjustable-rate to a fixed rate mortgage. You aren't allowed to take any cash out of your home. And streamline refinances may be obtained only to refinance existing FHA loans.

An FHA streamline refinance has less paperwork and faster closings compared to other types of refinances. See our article on FHA Streamline Refinances to learn more about these loans.

Refinancing from an FHA loan to a conventional loan

When you want to refinance an FHA loan, you may be able to replace it with a conventional loan. One reason homeowners think about refinancing their FHA loan into a conventional loan is to stop paying the mortgage insurance premiums that are required for FHA loans, typically for the life of the loan.

Every person who gets an FHA loan has to pay an upfront insurance fee equal to 1.75% of the base loan amount. You also have to pay monthly mortgage insurance premiums, which typically remain for the life of the FHA loan. You don't need to pay for private mortgage insurance on conventional loan refinances as long as you have at least 20% home equity. So refinancing to a conventional loan might save you money on your monthly mortgage payment by eliminating mortgage insurance.

When you want to refinance your mortgage, look at all the costs and savings. Compare the interest rates, annual percentage rates, the terms, the closing costs, the total monthly payments, and other factors before you make a decision. By refinancing, the total finance charges may be higher over the life of the loan.

FHA refinance requirements

The requirements for an FHA refinance can be different from lender to lender. Lenders will typically look at the items below to determine if you would qualify for an FHA refinance.

Credit score. Your credit score is an indicator of how likely you are to pay back money you borrow. Lenders tend to have minimum credit scores for different loans, and your credit score can influence the interest rate they offer, too. A higher credit score can help you qualify for a loan at a lower rate, resulting in your paying less money in interest.

Loan-to-Value Ratio (LTV). This is a percentage calculated by dividing your mortgage amount by your home's value. For instance if your home is worth $250,000 and your mortgage balance is $125,000, your LTV is 50%. It is possible to refinance an FHA loan with a high loan-to-value ratio.

Debt-to-Income Ratio (DTI). This is a percentage you get by taking your total monthly debt payments (for things like a mortgage, car loans, student loans, and credit card balances) and dividing them by your monthly income. A person with monthly debts of $1,250 and a monthly income of $5,000 has a DTI of 25%, for example. The lower your debt-to-income ratio, the more likely lenders may be able to qualify you for an FHA refinance.

Late Payments. Lenders generally want to see that you are current on your mortgage payments, and have been making them consistently and on time, before they refinance an FHA loan.

When should you refinance an FHA loan?

The right time to refinance an FHA loan is different for each person. It depends on your current financial needs and circumstances, your current mortgage interest rate and loan terms, and other things.

Would you like to discuss whether an FHA refinance makes sense for you with a Freedom Mortgage Loan Advisor? Then please visit our Get Started page or call us at 877-220-5533.

NOTES & REMINDERS