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Simple Guide to FHA Refinancing



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If you've purchased a home before, you've taken the hardest step — financing what is likely your largest investment. Now that you own your home, you have opportunities to make living in it as affordable as possible.

This is where an FHA refinance may be able to help. With My Perfect Mortgage's tools and guidance, you'll gain an understanding of what a refinance loan can do for you, what you can afford, when the timing is best to refinance, and how to work with a lender.

With the perfect refinance mortgage through the right lender, the process to make your home loan more affordable can be smooth and simple.

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What Can Refinancing Do for You?

Refinancing your current mortgage gives you financial options. With a handful of FHA refinance loan types, a lender can help you decide which one is the best for you.



Make Your Home More Affordable

FHA Streamline Refinance

Make your monthly mortgage payments more affordable by lowering your interest rate through a simplified application process.

This is your fastest and simplest way to refinance, with little paperwork needed for approval.



Open Up Your Options

FHA Simple Refinance (or Rate and Term Refinance)

Improve your overall terms or type of mortgage to make it more affordable and possibly pay it off quicker.

The application process involves more paperwork and requirements (equity in your home, debt-to-income ratio, etc.) but it could also give you more options in the end, like switching your loan type, term length, rate type, or lowering or getting rid of mortgage insurance costs.



Pay for Other Expenses

FHA Cash-Out Refinance

Refinance your current mortgage to help you pay for other life expenses such as home improvements, student loans, or high-interest debt with a cash-out refinance.

This involves more paperwork and a look at your home equity but allows you to leverage your investment in your home to cover other expenses.

Is it the Right Time for an FHA Refinance?

First, let's get familiar with the basics and the big picture of refinancing. Learn all of your options and how they may fit into your personal situation.

What is an FHA loan?

You may be familiar with FHA loans because your current mortgage is FHA. Or you may be looking to switch from another loan type, such as a conventional loan.

FHA loans are backed by the Federal Housing Administration (FHA), which makes it easier to get approved for one, even with lower credit and other financial limitations. By providing more flexible qualification requirements, FHA loans allow more people to become homeowners.

After purchasing your home, you have the option to refinance your mortgage. The FHA offers a few options – streamline refinance, simple refinance, or cash-out refinance.

What Does it Mean to Refinance?

When you refinance your mortgage, you apply for a new loan that will pay off your existing mortgage and either provide you with a new interest rate, term length, loan type, cash, or other changes to the terms of your home loan.

Refinancing can make your mortgage more affordable or help you reach other financial goals, like paying off your mortgage sooner or borrowing cash to use for other expenses.

When Can I Refinance my Home Loan?

Multiple considerations will help you determine when it's the right time to refinance.

Personally, you'll want to consider how long you'll be living in the home, as well as your current financial situation. If you refinance, you'll need to pay closing costs to process the loan. If you plan to sell the home in the next few years, the benefits of refinancing may not make up for this extra upfront cost in the short term.

You'll also want to consider the current housing market and trending interest rates. Historically low interest rates create a great opportunity to refinance to lower your interest costs and adjust your terms. On the other hand, if rates are average, you plan to stay in your home for many years, and other expenses have become your priority, it may be time for a cash-out refinance.

Your lender may also have timing requirements. With FHA loans, you need to wait at least 6 months from the time you closed your current mortgage before you can refinance.

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FHA vs Conventional Refinance

Conventional refinance loans offer benefits such as lower interest rates and the potential to eliminate extra mortgage costs like mortgage insurance.

But conventional mortgages have more strict qualification requirements. Also, if you have less than 20% equity in your home, you'll have to pay Private Mortgage Insurance (PMI) annually.

FHA refinance loans offer more financing options to those with lower credit scores, while still providing a competitive interest rate, along with additional flexibility. They do come with extra mortgage insurance costs though to secure the loan. This includes an Upfront Mortgage Insurance Premium (UFMIP) paid one time at closing and an annual Mortgage Insurance Premium (MIP).

An FHA refinance's annual MIP cost is likely lower than a conventional refinance's annual PMI costs.

Why Get an FHA Refinance if Your Current Loan Isn't FHA?

- If, for example, you want to do a cash-out refinance and you currently have a conventional loan, you may find that it will be easier to qualify for an FHA cash-out refinance.
- If you're currently paying PMI for a conventional mortgage, you may find that the cost of MIP is actually lower.
- If you have a lower credit score, you may get a better interest rate when applying for an FHA refinance loan.



Start by Asking Yourself These Questions

There are a handful of financial requirements that need to be met to get the full benefit of an FHA refinance. Think these through and discuss them with your lender to learn more about what might work best for you.

1 Has your current mortgage been paid on time each month?

If it's delinquent, you may not be able to get approved for a new refinance loan.

2 Has it been at least 6 months since you closed your current mortgage or refinanced?

If you've had your current mortgage for less than 6 months, you'll need to wait at least that long to refinance. With a cash-out refinance, this is longer, at 12 months.

3 Are you able to pay closing costs?

These cover loan origination fees and might equal 1-3% of the value of your new refinance loan.

You'll also likely need to pay mortgage insurance. The upfront MIP is typically 1.75% of your loan amount.

With an FHA streamline refinance, closing costs are lower because there are fewer loan origination fees. It pays to not need an appraisal, for example. There are also options to trade closing costs for a slightly higher interest rate.

4 Will refinancing give you a "net tangible benefit"?

It needs to lower your interest rate by a certain amount or shorten your term length to show that the effort to refinance provides you with a worthwhile benefit. Specifically, your combined interest and insurance rate need to be lowered by at least 0.5%.

5 Do you need cash from your refinance?

You can only get up to \$500 in cash from an FHA streamline or simple refinance, which is only meant to provide flexibility around potential changes made at closing.

If you're looking for a larger amount of cash from your refinance, an FHA cash-out refinance is best.

→ **Next, let's compare your options by looking at the different types of FHA refinance loans, along with each of their benefits and requirements.**

Consider FHA Refinance Benefits and Requirements

We've dug into the basics. Now let's get more specific about each loan type to understand how one might work best for you.

FHA Streamline: Fast and Simple

If you're looking to refinance your current FHA mortgage but don't want to spend a lot of time gathering paperwork, the FHA Streamline is the simplest option.

- No income verification means less documentation
- No minimum credit score required allows for flexibility
- No home appraisal saves you time and closing costs
- No-closing-costs options and fixed or adjustable rates offer affordability
- No prepayment penalty means you can pay your loan off early

Keeping these benefits in mind, this may not be the option you're looking for. Or you may not already have an FHA loan. In that case, there are other loan types available.

Simple FHA Refinance: Flexible Options

Although there are more requirements to apply, a deeper look at your current financials can give you more options to improve your mortgage.

- Switching to an FHA loan may allow for more flexible requirements, such as credit score, income, etc.
- Choose between an adjustable or fixed-rate mortgage
- You may qualify for a lower interest rate or other options that make your monthly payment and overall loan more affordable
- Reduce mortgage insurance costs if you have high enough equity in your home
- Shorten your loan's term length to pay it off faster and save on interest costs

FHA Cash-Out Refinance: Pay for Other Expenses

If you need to leverage the money you've put into your home to pay for other expenses, while still benefiting from flexible loan options and requirements, an FHA cash-out refinance is likely best.

Borrow a larger loan amount and receive cash for the difference between your new loan amount and the amount you owe on your home.

- Refinance with a reasonable interest rate and use the cash to pay down high-interest debt like credit cards
- If an unexpected expense arises, the cash from your refinance may help to cover medical expenses, student loans, or other life needs
- Invest the cash back into your home by using it to pay for home improvements
- Depending on the market and your financials, you may also be able to get a lower interest rate or keep your interest rate relatively low
- Switch to an FHA loan to benefit from more flexible loan requirements



Compare Each FHA Refinance Loan Type

See the difference between each type of FHA refinance loan. Weigh the benefits and requirements, to understand which loan type could allow you to reach your next financial goal. Again, working with a lender can help you nail down the specifics so that you can make a final decision and work toward a potential approval.

BENEFITS & REQUIREMENTS	FHA Streamline	FHA Simple Refinance	FHA Cash-Out Refinance
Credit score	No minimum	At least 580	At least 580
Income/employment verification	Proof of employment only	Multiple documents needed	Multiple documents needed
Low interest rate options	✓	✓	Potentially
Shorter term length options	✓	✓	Not likely
Adjustable- or fixed-rate options	✓	✓	✓
Appraisal required	No	✓	✓
Closing costs	No-cost options	No-cost options	2-6% of home value
Debt-to-Income ratio	Not required	57% or less	50% or less
Loan-to-Value ratio	Not required	97.5% maximum	80% maximum
No prepayment penalty	✓	✓	✓

Note: These are guidelines and estimates of requirements. Depending on your lender and financial considerations, these may differ.

Checklist: Get Ready to Apply for Your FHA Refinance

Pro tip — Having this documentation upfront will help your loan process move smoothly!

The Basics

These may be the only required documents for an FHA Streamline loan. But they're just a starting point for other refinance loan types.

- Address and other details for the home you want to refinance
- Social Security Number for anyone who owns the home and is refinancing
- Driver's license or other government-issued photo ID
- Current mortgage statement and mortgage note
- Proof of homeowners insurance
- Employment verification from current employer
- Last two months of statements for all checking and savings accounts

Note: Your lender may request additional information.

Other Potential Required Documentation

Finances, Income, and Assets

- Credit score and credit report, which the lender will run
- Names and addresses of employers for past two years
- Current gross monthly salary
- Last month of pay stubs
- W-2 or 1099 forms from the past two years
- Tax returns (1040s) from the past two years
- Documentation for retirement or investment accounts
- Full details about any other real estate you own

Expenses and Debts

- Documentation for credit cards, student loans, home equity loans, car loans, etc.
- Payment history for bills like utilities, car insurance, etc.
- Annual property tax estimates



You're on your way to the perfect refinance mortgage.

So what's next? You've learned the basics about your options, including the benefits and requirements of FHA refinancing. With this knowledge, you're ready to connect with a lender who will answer your questions and guide you through the process of finding the perfect refinance mortgage.

Ready to connect with a lender?

[Get started](#) with My Perfect Mortgage.

Answer a few quick questions, and we'll match you with one of our trusted and experienced lending partners.

Still have questions?

Check out our [Learning Center](#).

We share tons of insider information and tools that can help you make better, more informed decisions about the next steps with your mortgage so that your home can be as affordable as possible.

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