FHA Streamline Refinance "Legal Loophole" Secures 0 Down At Closing

David Bryce May 22, 2013

FHA Streamline Refinance With 0 Down

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(Newswire.net -- May 24,2013) Los Angeles, CA-- Homeowners who funded an FHA loan around 2009 have promising options for rate reduction and simply saving more money when streamline refinancing. When we asked Fred Abitbol of Hypotec Lending, he put it to us like this, "With rates at all time historical lows, I haven't had any borrower opt to pay points for a below-market rate in almost two years."

When securing a 0 point market rate, borrowers still have to pay the market fees associated with conducting a refinance transaction. Title, escrow, lender, notary and recording charges are all part of the closing fees, which can add up to a few thousand dollars. By offering an above-market interest rate, lenders can provide a lender credit to pay for these closing costs, which is what Hypotec's borrowers have the option to do. Furthermore, Hypotec borrowers were interested in taking an even higher interest rate; Allowing the lender credit could increase to pay for the impound account reserves required with FHA. This left the borrowers with $0 due at closing.

The borrowers now save $250 off their monthly payment, paid $0 at closing, "skipped" one month of mortgage payment (mortgage interest is paid in arrears), and finally, they received a handsome refund of $1,500 from their previous impound account with their old lender. "They could have taken the standard rate and saved more off their monthly payment, but it was more attractive for them to pay nothing at closing as opposed to a few thousand dollars," Abitbol explains.

In general, FHA streamline refinance loans must pass a "net tangible benefit" test, which measures the financial soundness of refinancing. Since Hypotec's borrowers had a high rate to begin with, there was more rate choice options in-between their high rate and present market rate. As long as these rate options pass the net tangible benefit test, they are acceptable to FHA and the lender.

It is important to note that FHA streamline loans don't require an appraisal, and can be completed without running a full credit report or providing any income documentation. Also, when paying off an FHA loan, it is in the borrower's best interest to close at the end of the month. FHA does not pro-rate interest in the month the mortgage is being paid off, so this avoids a long overlap of paying "double interest" from the old and new loan.

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