



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

**Date: August 1, 2019**

**Mortgagee Letter 2019-11**

**To:** All FHA-approved Mortgagees  
All Direct Endorsement Underwriters  
All FHA Roster Appraisers  
All FHA-Approved 203(k) Consultants  
All HUD-Approved Housing Counselors  
All HUD-Approved Nonprofit Organizations  
All Governmental Entity Participants  
All Real Estate Brokers  
All Closing Agents

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**Subject** Maximum Loan-To-Value and Combined Loan-To-Value Percentages for Cash-out Refinance Mortgages.

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**Purpose** This Mortgagee Letter reduces the current Maximum Loan-To-Value (LTV) and Combined Maximum Loan-To-Value (CLTV) percentages to 80 percent on Cash-out Refinance Mortgages.

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**Effective Date** The guidance in this Mortgagee Letter is effective for case numbers assigned on or after September 1, 2019. All policy updates will be incorporated into a forthcoming update of the HUD Single Family Housing Policy Handbook 4000.1 (Handbook 4000.1).

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**Public Feedback** HUD welcomes feedback from interested parties for a period of 30 calendar days from the date of issuance. To provide feedback on this policy document, please send any feedback to the FHA Resource Center at [answers@hud.gov](mailto:answers@hud.gov). HUD will consider the feedback in determining the need for future updates.

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### **Affected Programs**

This guidance will affect HUD's Single Family Housing Policy Handbook 4000.1 (Handbook 4000.1), section II.A.8.d.v(B)(1) Maximum Mortgage Amount–Standard. This policy does not apply to mortgages insured under Section 247 (Single Family Mortgage Insurance on Hawaiian Homelands).

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### **Background**

FHA last adjusted the maximum LTV on cash-out refinances from 95 percent to 85 percent in 2009 in response to the weakening housing market. Prior to FHA's reduction of LTV requirements and similar changes by other market participants during the market downturn, the share of cash-out refinances had rapidly increased as housing prices increased through the mid-2000s. Subsequent studies have shown that a significant increase in foreclosures may have been the result of a high number of cash-out refinances completed prior to the collapse of the housing market. As the housing market has improved, the market has continued to monitor the risk associated with cash-out refinances and recently one of the Government Sponsored Enterprises has instituted changes to address this credit risk. FHA's data is again showing that an increasing amount of cash-out refinance transactions are occurring. Notably, the total number of FHA endorsements with cash-out refinance mortgages has increased 250.47 percent - from 43,052 in FY 2013, which had the lowest share of cash-out refinances - to 150,883 in FY 2018. Consequently, FHA has concluded that this ML would be a prudent measure in order to strengthen the equity position of cash-out refinances and reduce loss severities in the event of default, stay ahead of any potential future shift in the housing market and better support FHA's mission of providing access to sustainable homeownership that builds equity.

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### **Summary of Changes**

The Maximum Mortgage Amount section of Handbook 4000.1 is amended to reduce the current Maximum LTV and CLTV percentages from 85 to 80 percent of the Adjusted Value on cash-out refinance mortgages. This policy change seeks to mitigate risks to the FHA Insurance Fund associated with increasing levels of insured loan balances on cash-out refinance mortgages. This new requirement is a prudent safeguard that permits FHA to ensure it stays ahead of any shift in housing stability.

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# Mortgagee Letter 2019-11

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**HUD Single  
Family  
Housing  
Policy  
Handbook  
4000.1**

**Maximum Mortgage Amounts - Standard II.A.8.d.v(B)(1)**

**(a) Maximum Loan-to-Value**

The maximum LTV is 80 percent of the Adjusted Value.

**(b) Maximum Combined Loan-to-Value**

The maximum CLTV is 80 percent of the Adjusted Value.

**(c) Nationwide Mortgage Limit**

The combined mortgage amount of the first Mortgage and any subordinate liens cannot exceed the Nationwide Mortgage Limit described in National Housing Act's Statutory Limits.

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**Questions**

For additional information on this ML, please visit [www.hud.gov/answers](http://www.hud.gov/answers) or call FHA's Resource Center at 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number via TTY by calling the Federal Relay Service at 1-800-877-8339.

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**Signature**

Brian D. Montgomery  
Assistant Secretary for Housing  
-Federal Housing Commissioner