



# Loan Guaranty Conference 2023

## Refinancing Loans

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U.S. Department  
of Veterans Affairs

# Introduction

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**Heather Sborz - Chief, Loan Policy**

**Jyssica Sule - Program Analyst**

# Objectives

- VA Refinance Loans Overview
- Regulatory Update/Public Comments
- Cash-Out Refinance Net Tangible Benefits (NTB)
- Interest Rate Reduction Refinancing Loans (IRRRL) NTB
- NTB Compliance Remedial Measures
- Cash-Out Refinance Disclosures
- IRRRL Worksheet (VA Form 26-8923)

# VA Refinance Overview

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# VA Refinance Overview-IRRRL

## Interest Rate Reduction Refinancing Loans

- Streamline refinance of an existing VA loan
- Loan must meet Net Tangible Benefits requirements
- Loan must meet seasoning requirements
- Recoupment required of fees and charges in 36 months

# VA Refinance Overview-Cash Out

## Type 1 Cash-Out Refinances

- A limited cash-out refinance where the new loan does not exceed the payoff of the existing loan
- Seasoning may apply
- Loan must meet NTB requirements
- Recoupment required of fees and charges in 36 months

## Type 2 Cash-Out Refinances

- A cash-out refinance where the new loan exceeds the payoff of the existing loan
- Seasoning may apply
- Loan must meet NTB requirements

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# Rulemaking Updates

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# Timeline



## **Economic Growth, Regulatory Relief, and Consumer Protection Act**

Public Law 115-174  
*May 24, 2018*



## **Protecting Affordable Mortgages for Veterans Act of 2019**

Public Law 116-33  
*July 25, 2019*



## **Final Rule: Revisions to VA-Guaranteed or Insured Cash-Out Home Refinance Loans**

2900-AQ42  
*Anticipated late 2023*



## **Interim Final Rule: Revisions to VA-Guaranteed or Insured Cash-Out**

**Home Refinance Loans**  
2900-AQ42  
*December 17, 2018*



## **Proposed Rule: Revisions to VA-Guaranteed or Insured IRRRLs**

2900-AR58  
*November 1, 2022*

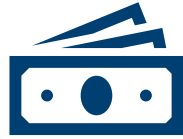


## **Final Rule: Revisions to VA-Guaranteed or Insured IRRRLs**

2900-AR58  
*Anticipated early 2024*

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# Summary of Public Comments



## Cash-Out Refinancing Loans

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- Ability to gather accurate information for initial comparison disclosure
- Standardized form for comparison disclosures
- Alignment with Ginnie Mae on loan seasoning requirements
- NTB Exceptions
- Suggestions to further curtail predatory lending (loan-to-value restrictions, NTBs)



## Interest Rate Reduction Refinancing Loans (IRRRLs)

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- Ability to gather accurate information for initial comparison disclosure
- Borrower attestation for comparison disclosure
- Practical issues complying with loan seasoning requirements
  - Loan modifications
  - Consecutive payments
- Recoupment requirement for certain IRRRLs
- Time to adopt final rule

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# Cash-Out Refinance Net Tangible Benefits

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# What is NTB Cash-Out?

- The NTB test ensures that the loan is the best financial interest of the Veteran
- Cash-Out must meet one of the 8 listed in 38 CFR § 36.4306(a)(3)(i)
- Disclosure Requirement

# NTB #1

## **Elimination of monthly mortgage insurance**

- Such as private monthly mortgage insurance
- FHA monthly mortgage insurance premium
- USDA annual guaranty fee

**Reduces the monthly payment**

**Reduces the total cost over the life of the loan**

## NTB #2

### **Reduction of Loan Term**

- The term must be compared to the initial term rather than remaining term

**May reduce the total interest cost over the life of the loan**

## NTB #3

### **Reduction of Interest Rate**

- Reduction based on the current or modified rate

**May reduce the total interest cost over the life of the loan**

## NTB #4

### **Reduction in monthly payment**

- The current monthly principal and interest payment is reduced

### **Reduces the monthly payment**

## NTB #5

### **Increase in residual income**

- It is based on a comparison of the existing residual income vs. the proposed

**The Veteran should have less monthly obligations after the completion of the refinance.**

## NTB #6

### **Refinance of an interim loan to construct, alter, or repair their home**

- The loan being refinanced must have been an “interim” construction loan

**This allows for the Veteran to refinance into permanent financing and the Veteran may be able to recoup out of pocket expenses incurred during construction.**

## NTB #7

**The loan-to-value ratio is equal to or less than 90%.**

- It is based on the current reasonable value per the Notice of Value (NOV)

**The Veteran will retain at least 10% equity, reduces the potential for the Veteran to be under water.**

## NTB #8

### **Refinance from an adjustable rate to a fixed rate**

- The loan being refinanced must be an adjustable rate mortgage
- The new rate may increase over the current rate

**The fixed rate will allow for stability in the monthly payment and interest rate.**

# **Interest Rate Reduction Refinancing Loans (IRRRL) Net Tangible Benefit (NTB)**

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# What is a NTB, IRRRL?

- The NTB test ensures that the loan is the best financial interest of the Veteran
- The IRRRL must meet the rate reduction requirement in 38 U.S. Code § 3709(b)
- Disclosure Requirement

# NTB IRRRL Fixed Rate

## **Fixed interest rate to fixed interest rate**

- Reduction of at least 50 basis points
- Initial rate of 4.5%, the IRRRL must not exceed 4%

# NTB IRRRL ARM<sub>s</sub>

## **Fixed interest rate to adjustable interest rate**

- Reduction of at least 200 basis points
- Initial rate of 6.5%, the IRRRL must not exceed 4.5%

# NTB Compliance Remedial Measures

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# Non-Compliant IRRRLs

## VA Circular 26-20-16

- Change 1 extends the expiration date until rescinded

**Lenders must continue to self-report non-compliant IRRRLS and cure any non-compliance at no-cost to the borrower.**

**Seasoning issues are not curable and the lender should execute an indemnification agreement for the life of the loan. Contact VA to execute an indemnification.**

# Cash-Out Refinance Disclosures

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# Cash-Out Disclosures

**The intent is inform the Veteran of the impact of the transaction**

**The disclosure must be provided twice:**

- Within three days of application
- At loan closing

# Cash-Out Disclosures, Continued

**The disclosure must contain the following:**

- The NTB met
- The loan payoff amount vs. the new loan amount
- The amortization type of the old loan vs. new
- The interest rate of old loan vs. new
- The remaining term of the old loan vs. new loan term
- The total amount paid through life of the loan
- The loan-to-value ratio of the old vs. new
- The amount of home equity removed

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# Questions



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