



Veterans Benefits Administration

Loan Guaranty Service

Cash-Out Refinance Interim Rule Briefing

Briefed by:

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Our Mission

The VA Home Loan Guaranty program assists eligible Veterans, active duty personnel, surviving spouses, and members of the Reserves and National Guard **obtain, retain, and adapt** homes, by providing a viable and fiscally responsible benefit program in recognition of their service to the Nation.

Briefing Objectives

To provide lenders with:

- Background behind VA's new cash-out refinance rule
- A review of new requirements for VA cash-out refinancing loans
- Next steps for VA and lenders

Background

On May 24, 2018, the President signed into law *The Economic Growth, Regulatory Relief, and Consumer Protection Act*, Public Law 115-174, 132 Stat. 1296.

Section 309 of this law seeks to protect Veterans from predatory lending practices when refinancing home loans and ensure the loans are in Veterans' financial interests.

VA's Cash-Out Refinance Rule

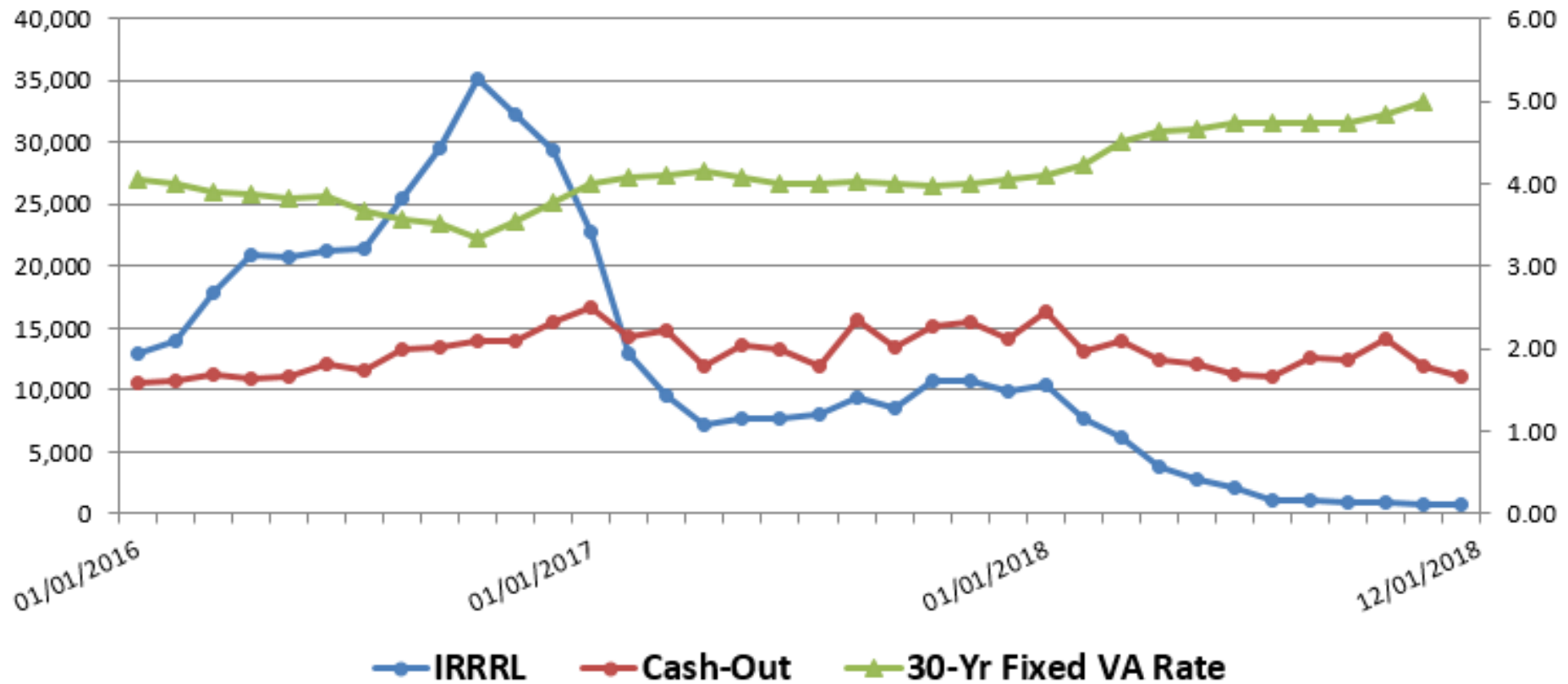
On December 17, 2018, VA published an Interim Final Rule addressing VA guaranty requirements for cash-out refinance loans (83 FR 64459).

- The rule is effective on February 15, 2019
- Public comment period open through February 15, 2019

This rule implements section 309 for VA cash-out refinance loans. *A future* rulemaking will address interest rate reduction refinance loans (IRRRLs).

VA Refinance Loan Volume, 2016-2018

Monthly Loan Origination Detail



Sources: VA Internal Loan Data and Ellie Mae Origination Insight Reports

VA Cash-Out Refinance Goals

- Ensure Veterans continue to have access to responsible credit options for refinancing
- Provide Veterans with sufficient information regarding the impact of a refinance loan on their current and future financial position

VA Cash-Out Refinance Loan Types

Two types of cash-out refinancing loans:

- **TYPE I:** A refinancing loan in which the loan amount does not exceed the payoff amount of the loan being refinanced.
- **TYPE II:** A refinancing loan in which the loan amount exceeds the payoff amount of the loan being refinanced.

NEW Cash-Out Requirements

Cash-out refinancing loan applications taken on or after February 15, 2019, must meet the following additional requirements:

- ✓ Loan-to-Value (LTV)
- ✓ Net Tangible Benefit (NTB)
- ✓ Comparison Disclosure
- ✓ Loan Seasoning



Cash-Out Requirements by Loan Type

Type I Cash-Outs		Type II Cash-Outs	
VA→VA	Non-VA→VA	VA→VA	Non-VA→VA
✓ New Loan (including all financed fees and charges) ≤ 100% LTV ✓ Loan demonstrates at least 1 of 8 Net Tangible Benefits ✓ Lender provides comparison disclosure at application and closing			
✓ Loan Seasoning		✓ Loan Seasoning	
✓ Fee Recoupment			
✓ Interest Rate Requirements (if existing loan is fixed rate)			



Loan-to-Value (LTV)

The LTV ratio of the refinancing loan may not exceed 100 percent of the reasonable value of the property.

LTV Calculation:



$$\begin{array}{ccc} \text{loan amount} & & \\ & \div & \\ \text{property value} & & = \text{LTV} \end{array}$$

Net Tangible Benefit (NTB)

All cash-out refinancing loans must satisfy at least one of the following:

- Eliminate monthly mortgage insurance
- Decrease the loan term
- Decrease monthly (P&I) payments
- Reduce the interest rate



Net Tangible Benefit (NTB), Continued

- Maintain LTV equal to or less than 90%
- Refinance an interim construction loan
- Increase monthly residual income
- Refinance from an adjustable-rate loan to a fixed-rate loan

Comparison Disclosure Elements

Lenders must provide the following information for the existing and new loan for all cash-out refinancing loans:

- Loan amount vs. payoff amount
- Loan type
- Interest rate
- Loan term
- Total amount the Veteran will have paid after making all payments as scheduled
- LTV
- Home equity being removed from property



Comparison Disclosure Timing

- Lenders must provide the comparison disclosure to the Veteran within three business days from the date of the loan application and at loan closing.
- The Veteran must sign and/or acknowledge receipt of both disclosures.



Loan Seasoning

A loan is considered seasoned on the later date of:

- ✓ 210 days after the first monthly payment is made, and
- ✓ Six monthly payments have been made on the loan



Loan seasoning applies to TYPE I and TYPE II refinancing loans made to refinance a VA-guaranteed home loan.

TYPE I Interest Rate Requirements

These requirements apply to TYPE I refinancing loans made to refinance a VA-guaranteed home loan, in which the loan being refinanced has a fixed interest rate.

FIXED Rate-to-FIXED Rate: The interest rate of the refinancing loan may not be less than 0.5 percent (50 basis points) of the interest rate on the loan being refinanced.

TYPE I Interest Rate Requirements, (Cont.)

FIXED Rate-to-ADJUSTABLE Rate: The interest rate of the refinancing loan may not be less than 2 percent (200 basis points) of the interest rate on the loan being refinanced

- Discount Points > 1%: If discount points are included in the refinancing loan amount, the loan amount may not exceed an LTV of 90 percent.
- Discount Points $\leq$ 1%: If discount points are included in the refinancing loan amount, the loan amount may not exceed an LTV of 100 percent.

Fee Recoupment

- Recoupment of all fees, expenses, and closing costs included in the loan amount and paid outside of closing must be recouped through lower principal and interest (P&I) payments within 36 months from the date of closing.
- The lender must certify to VA that the fee recoupment requirement is met.

Fee recoupment applies to TYPE I refinancing loans made to refinance a VA-guaranteed home loan.

Fee Recoupment, (Continued)

Fee Recoupment Calculation:

Divide all fees, closing costs, and expenses by the reduction of the monthly P&I payment as a result of the refinance.

Prepaid expenses like homeowners' insurance, taxes, special assessments, and homeowner's association fees may be excluded from the 36-months recoupment calculations.

Next Steps for VA and Lenders

Lenders are encouraged to submit their comments on the Rule, Impact Analysis, and Comparison Disclosure, *to include any supporting data*, no later than February 15, 2019 at:

<https://www.regulations.gov/docket?D=VA-2018-VBA-0026>

VA will respond to all public comments in a final rulemaking. Please stay tuned for additional guidance and updates to VA Circular 26-18-30, *Revisions to VA-Guaranteed Cash-Out Refinancing Home Loans*, based on initial feedback and requests for clarification.



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