# ANNOUNCEMENT

Announcement Number: 19-03
Date: January 31, 2019
Subject Revisions to VA Refinance Guidelines

The Department of Veterans Affairs recently announced revisions to VA refinance guidelines and eligibility criteria. A summary of the changes are provided below. Full details are available in Circular 26-18-30.

The revisions that follow are effective on February 15, 2019, and will apply to VA cash-out refinance loan applications taken on, or after, this date.

**NOTE:** The following revisions do not apply to IRRRLs or VA Purchase loans.

**VA Refinance Categories**

VA has re-categorized refinancing loans as the following:

1) Interest Rate Reduction Refinancing Loan (IRRRL): a refinancing loan made to refinance an existing VA-guaranteed home loan at a lower interest rate.
2) TYPE I Cash-Out Refinance: a refinancing loan in which the loan amount (including VA funding fee) does not exceed the payoff amount of the loan being refinanced.
3) TYPE II Cash-Out Refinance: a refinancing loan in which the loan amount (including VA funding fee) exceeds the payoff amount of the loan being refinanced.

**Loan-to-Value (LTV)**

1) VA will no longer guaranty refinancing loans when the LTV exceeds 100%. If the Veteran chooses to close a loan in which the loan amount exceeds 100% of the value of the property, the Veteran must pay the amount which exceeds 100% of the property value at loan closing.
2) The LTV is calculated by dividing the total loan amount (including VA funding fee, if applicable) by the reasonable value on the Notice of Value of the property determined by the appraiser.

**Net Tangible Benefit (NTB)**

1) Lenders must ensure that all cash-out refinancing loans pass a NTB, which includes providing the Veteran with the following information no later than the third business day after receiving the Veteran's loan application, and again at loan closing.
2) VA Cash Out Refinances (both Type I and Type II) must satisfy at least one of the following eight NTB characteristics:
   i. The new loan eliminates monthly mortgage insurance, whether public or private, or monthly guaranty insurance;
   ii. The term of the new loan is shorter than the term of the loan being refinanced;
   iii. The interest rate on the new loan is lower than the interest rate on the loan being refinanced;
   iv. The payment on the new loan is lower than the payment on the loan being refinanced;
   v. The new loan results in an increase in the borrower's monthly residual income;
   vi. The new loan refinances an interim loan to construct, alter, or repair the home;
   vii. The new loan amount is equal to or less than 90 percent of the reasonable value of the home, or;
   viii. The new loan refinances an adjustable rate loan to a fixed rate loan.
3) VA Cash Out Refinances (both Type I and Type II) will require ALL of the following loan characteristics and terms be provided to the veteran at initial disclosure (within 3 days of application) and a final disclosure with final/revised information at closing.
   i. Refinancing loan amount vs. the payoff amount of the loan being refinanced.
   ii. Loan type (i.e., fixed, adjustable) of the refinancing loan vs. the loan being refinanced.
   iii. Interest rate of the refinancing loan vs. the loan being refinanced.
   iv. Loan term of the refinancing loan vs. the loan being refinanced.
   v. The total the Veteran will have paid after making all payments (principal and interest), and mortgage insurance, as scheduled, for both the refinancing loan and the loan being refinanced.
   vi. LTV of the refinancing loan vs. the loan being refinanced
   vii. An estimate of the home equity being removed from the home as a result of the refinance and explain how the removal of home equity may affect the Veteran.

**Loan Seasoning**

VA will not guarantee a refinancing loan if the loan being refinanced has not been properly seasoned. This requirement applies to TYPE I refinancing loans made to refinance an existing VA-guaranteed home loan and all TYPE II refinancing loans. A loan is considered seasoned on the later of the date that is:

1) 210 days after the first monthly payment is made, and
2) Six monthly payments have been made on the loan.

**Fee Recoupment**

VA will require Type I Cash-Out Refinances paying off an existing VA loan to recoup all fees, closing costs and expenses (other than taxes, escrow, insurance, and like assessments) within 36 months from closing.

**Recoupment Calculation**

Divide all fees, closing costs and expenses (excluding taxes, escrow, insurance, and like assessments), by the reduction of the monthly P&I payment as a result of the refinance. If the loan being refinanced has been modified, the principal and interest reduction must be computed/compared to the modified principal and interest monthly payment.

**Automated Underwriting**

Fannie Mae published a DU Release Notes Update stating that DU will be updated the weekend of February 16, 2019 to accommodate these changes.

Freddie Mac has not indicated when LPA will be updated to implement these changes.

Please contact your Account Executive with any questions.