

Chapter 6

Interest Rate Reduction Refinance Loans

Presented by:

Greg Nelms, Chief, Loan Policy, Washington DC
Amy Berumen, Loan Production Officer, Phoenix RLC



U.S. Department
of Veterans Affairs

Policy Updates

- QM requirements were incorporated
- New examples for payment decrease/increase requirements
- Recoup Calculation clarified
- FAQs on Circular
- Future System Enhancements
- Misleading Advertising

Qualified Mortgage (QM)

Typically all VA loans are considered to have Safe Harbor QM status.

IRRRLs must also meet requirements of 38 CFR § 36.4300(c)(1)

- 6 months seasoning
- Recoup of 36 months or less
 - Excludes: EEMs, Adjustable Rate to Fixed Rate, Reduced Term
- Requirements related to exemption of income verification is satisfied
 - Current loan is not 30 days or more past due
 - IRRRL does not increase PB on existing loan except for EEMs and allowable fees and charges
 - Total points and fees (TILA) do not exceed 3% of proposed principal amount
 - Lower interest rate (unless adjustable to fixed)
 - Fully amortize loan (no balloon payments)
 - Both original and new loan satisfy all other VA requirements

QM Requirements Cont.

- Not Safe Harbor QM --> Rebuttable Presumption QM
 - Does not require VA Prior Approval!
- Prior approval only required when loan is 30 days or more past due
 - Not required for NSC Pension and Fiduciary cases
 - VA's prior approval does not mean loan is considered Safe Harbor
- **ANY** loan where new payment (PITI) increases by 20% or more requires Lender Certification (signed by Underwriter)
 - Determine income established is stable and reliable,
 - Borrower(s) qualify for new payment

Payment Decrease/Increase Requirements

Allowed or Not Allowed?

- 1) Current loan 5% fixed; New loan 4% ARM – payment decreased
- 2) Current - 30 yr. fixed at 4%; New - 3.5% fixed for 25 yrs.
- 3) Current - 30 yr. fixed at 4%; New - 4% fixed for 15 yrs.
- 4) Current - 30 yr., 3.5% ARM (original rate 2.5%); New - 30 yr. fixed at 4%
- 5) Current - 3.5% fixed with 15 yr. term; New - is 3.25% fixed for 30 yrs.

Recoup Statement

- Purpose: To allow Veterans to make better informed decisions in regard to IRRRL refinances.
- VA Circular 26-18-1
 - Effective for all loans closed on or after April 1, 2018
 - Requires two Recoup Statement disclosures
 - On lender's letterhead
 - Initial - within 3 business days of loan application
 - Final - prior to closing, must be signed by the Veteran
 - Starting May 21, 2018, Lenders upload into WebLGY:
 - Both recoup statements
 - Lenders Certification (as applicable, payments increased by 20% or more)
 - VA Form 26-8923, IRRRL Worksheet

Calculating the Initial Recoup

Using the LE

Add: A, B, C, E, H
(include VAFF)
\$2,179

Subtract: Lender
Credits (J)
\$200

= Total Costs
\$1,979

Divide by decrease in
monthly payments
\$50

TOTAL Months to
Recoup: **35.98**

Closing Cost Details

Loan Costs		Other Costs	
A. Origination Charges		E. Taxes and Other Government Fees	
0.250 % of Loan Amount (Points)	\$393	Recording Fees and Other Taxes	\$145
	\$393	Transfer Taxes	
B. Services You Cannot Shop For		F. Prepays	
Flood Certification	\$9	Homeowner's Insurance Premium (months)	
Tax Service	\$75	Mortgage Insurance Premium (months)	
VA Funding Fee	\$782	Prepaid Interest (\$16.1507 per day for 17 days @3.750 %)	\$275
	\$866	Property Taxes (months)	
C. Services You Can Shop For		G. Initial Escrow Payment at Closing	
Title - Lender's Title Insurance	\$325	Homeowner's Insurance \$62.50 per month for 7 mo.	\$438
Title - Settlement Fee	\$450	Mortgage Insurance per month for mo.	
	\$775	Property Taxes \$301.43 per month for 6 mo.	\$1,809
D. TOTAL LOAN COSTS (A + B + C)		H. Other	
	\$2,034		\$0
		I. TOTAL OTHER COSTS (E + F + G + H)	
		\$2,667	
		J. TOTAL CLOSING COSTS	
		\$4,501	
		D + I	
		\$4,701	
		Lender Credits	
		-\$200	
		Calculating Cash to Close	
		Loan Amount	
		\$157,200	
		Total Closing Costs (J)	
		-\$4,501	
		Estimated Total Payoffs and Payments	
		-\$153,236	
		Estimated Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower	
		\$537	
		Estimated Closing Costs Financed (Paid from your Loan Amount)	
		\$3,964	

Calculating the Final Recoup

Closing Cost Details

Loan Costs	Borrower-Paid		Paid by Others
	At Closing	Before Closing	
A. Origination Charges	\$5,002.01		
01 2.125 % of Loan Amount (Points)	\$3,458.23		
02 Origination Fee	\$1,543.78		
03			
04			
05			
06			
07			
08			
B. Services Borrower Did Not Shop For	\$861.66		
01 Credit Report to Credit Plus	\$41.00		
02 Flood Certification to Nations	\$11.00		
03 VA Funding Fee to Dept. of Veteran Affairs	\$809.66		
04			
05			
06			
07			
08			
09			
10			
C. Services Borrower Did Shop For	\$1,060.00		
01 Title - Closing Protection Letter Fee to Elevated Title	\$25.00		
02 Title - Lender's Title Insurance to Elevated Title	\$440.00		
03 Title - Settlement Fee to Elevated Title			(L) \$150.00
04 Title - Title Examination Fee to Elevated Title	\$595.00		
05			
06			
07			
08			
D. TOTAL LOAN COSTS (Borrower-Paid)	\$6,923.67		
Loan Costs Subtotals (A + B + C)	\$6,923.67		

Use the CD

Lender Credits should be itemized in paid by Other column and **not** considered in the overall calculation

VA RATE REDUCTION CERTIFICATION

PREVIOUS LOAN:

Previous Loan Number _____
Loan Amount \$ _____
Original Term _____
Monthly payment \$ _____
Interest Rate _____
Original Borrowers _____

PROPOSED LOAN:

New Loan Number _____
Proposed Loan Amount \$ _____
Proposed Term _____
Proposed Monthly payment \$ _____
Interest Rate _____
Borrowers _____

TIME TO RECOUP CLOSING COSTS:

Monthly decrease in payments \$ _____
Total Closing Costs \$ _____
Recoup Closing Costs _____ Months

I/We hereby certify that I/we understand the effect of the loan payment and interest rate involved in refinancing our home loan.

Borrower Date: _____

Co-borrower Date: _____

Sample Certification

Frequently Asked Questions

Question 1: The Circular is effective with closed loans April 1, 2018. For loan in process that have not been disclosed what should our company do?

Answer: For loan applications impacted due to this timing, VA encourages lenders to make every effort to provide the Statement to the Veteran as soon as possible. If lenders are having difficulty complying, they should contact a VA Regional Loan Center (RLC) with Loan Guaranty operations by calling 1-877-827-3702 with hours of operation between 8am to 6pm EST. Your call will be placed in the national queue.

Question 2: Will WebLGY change due to this new policy VA is implementing?

Answer: Full functionality will be available for lenders to certify and upload the disclosures in WebLGY on May 21, 2018. For loans guaranteed on April 1 and prior to May 21, 2018, lenders will not be required to upload the disclosures; however, lenders may be asked to produce those documents in an onsite audit, or a file review audit.

Question 3: Since the Circular states that the Lender's Certification must be provided at the time of initial disclosure if the payment increases 20% or more. How can we provide that certification, which is attesting that the veteran qualifies for the PITI increase, when we have not underwritten the file?

Answer: This requirement has been removed from the initial disclosure period. The lender will be required to provide the Lender's Certification for payment increases 20 percent or more at closing, and will also be required to make this same certification in the Loan Guaranty Certificate (LGC) process.

Frequently Asked Questions

Question 4: Please confirm when it is required that the Veteran's Statement is to be signed by the Veteran.

Answer: It is preferred that the Veteran acknowledge, by signature, the Statement provided in the initial disclosure package, it is understood that these actual documents are not always returned to the lender. VA does expect the lender to be able to show the disclosure statement at a minimum was sent and received by the Veteran. It is also a requirement that the Veteran acknowledge by signing the final Statement with the closing documents. In the file review process, VA will review the date on the initial Statement with the Loan Estimate to ensure it was disclosed timely.

Question 5: In our disclosures the Veteran's Statement and Lender Certification are two separate documents. Is this acceptable?

Answer: Yes

Question 6: Will Lenders be required to send subsequent statements or certifications when the loan attributes (that impact the recoupment period) change during processing?

Answer: VA understands that variance exists in an initial application and a final application and is not requesting lenders to provide updated disclosure(s) during the loan process.

Frequently Asked Questions

Question 7: Do escrows of property taxes and insurance fall under the definition of taxes in (1) Origination charges, services you cannot shop for, services you can shop for, taxes and other government fees, other, or VA funding fee?

Answer: Property taxes do not fall under the description in 3. b. (1). Note: titles of the categories listed are identical to the titles on the Loan Estimate (LE). 3.b. (1) is referring to these title headings. It is not necessary to include title headings F. Prepays, and G. Initial Escrow Payment at Closing in the recoupment calculation.

Although the funding fee is often included in F. or G. of the LE or closing disclosure (CD), the funding fee should be included as a cost to be recouped regardless of where it is positioned on the LE or CD.

Question 8: Based on section 3.b. (1) of the circular it would appear that the fees would need to be itemized on the Veteran's Statement based on the categories stated and the lump sum calculation of closing costs would no longer be acceptable?

Answer: The circular is giving lenders guidance on what to use in order to determine the total closings costs required for the recoupment calculation. It is acceptable to provide a lump sum of the total closing costs on the Veteran's statement. It is also acceptable to itemize these charges on the Veteran's statement, but it is not required.

This is not intended to give guidance on completing the CD. Guidance on completing the CD can be found in [Circular 26-17-11, Instructions Regarding Documentation of Allowable Fees and Charges on the Truth in Lending Act- Real Estate Settlement Procedures Act \(TILA-RESPA\) Integrated Disclosure Closing Disclosure \(TRID-CD Form\)](#).

Future WebLGY Enhancement

Loan Information	
Loan Procedure *	Automatic Supervised ▼
Purpose of Loan *	Refinancing ▼
Refinance / Loan Code *	2-IRRRL ▼
Prior Loan Type	
Type of Mortgage *	0 Regular Fixed ▼
ARM Type	▼
Type of Ownership *	Sole Ownership ▼
Closing Date *	02/23/2017
Effective Date of Guaranty	02/23/2017
Date Closing Package Received	03/23/2017
Guaranty Date *	03/23/2017
Purchase Price	\$ 0
Reasonable Value	\$
Energy Improvements	<input type="checkbox"/> Install Solar Heat Cool <input type="checkbox"/> Replace Major System <input type="checkbox"/> Addition New Feature <input type="checkbox"/> Insulation, Caulk, Weathering, Etc. <input type="checkbox"/> Other Improvement
Energy Improvement Amount *	\$ 0
Loan Amount	\$ 63,400
Loan Term *	360 Months <input type="checkbox"/> Active Past Maturity
Interest Rate *	5.5 %
Total Closing Costs *	\$ 1,000.00
Guaranty Amount	\$ 25,360
Guaranty Percent	40.00%
Calculate:	Calculate




Certifications at Guaranty

IRRRL Prior Loan Information		
Paid in full VA Loan Number		
Original Loan Amount	\$ 71,000	
Original Interest Rate	6.000	
IRRRL Compliance		
Veteran Statement Disclosed *	<input checked="" type="checkbox"/> By selecting this checkbox you certify that the Veteran Statement was disclosed to the Veteran within 3 business days of receiving the loan application	
Lender Certification Given	<input type="checkbox"/> By selecting this checkbox you certify that the Veteran qualified for the new loan if the payment increase is greater than 20%	
IRRRL Loan Comparison		
	Prior Loan	Current Loan
Loan Amount	\$ 71,000.00	\$ 63,400.00
Interest Rate	6.00 %	5.5 %
Monthly Payment	\$ 425.68	\$ 359.98
Payment Change		\$ -65.69
Percent Payment Change		-15.43 %
Recoupment Period		16 Months
Note *		
<input type="checkbox"/> Public	test	

Submit

Certifications at Guaranty

IRRRL Prior Loan Information		
Paid in full VA Loan Number		
Original Loan Amount	\$ 71,000	
Original Interest Rate	6.000	
IRRRL Compliance		
Veteran Statement Disclosed *	<input checked="" type="checkbox"/> By selecting this checkbox you certify that the Veteran Statement was disclosed to the Veteran within 3 business days of receiving the loan application	
Lender Certification Given	<input type="checkbox"/> By selecting this checkbox you certify that the Veteran qualified for the new loan if the payment increase is greater than 20%	
IRRRL Loan Comparison		
	Prior Loan	Current Loan
Loan Amount	\$ 71,000.00	\$ 63,400.00
Interest Rate	6.00 %	4.12 %
Monthly Payment	\$ 425.68	\$ 472.94
Payment Change		\$ 47.25
Percent Payment Change		11.10 %
Recoupment Period		Months
Note *		
<input type="checkbox"/> Public		
test		
<input type="button" value="Submit"/>		

Uploading Disclosures

Correspondence

Enter Correspondence

Submission Date*	<input type="text" value="03/21/2018"/>	User	SILVIINO BIEG
Document Association *	<input type="text" value="IRRL 01/30/2017"/>	Note	<input type="checkbox"/> Public Note
Correspondence Type *	<input type="text" value="Document Received"/>	<input type="text" value="test"/>	
Document Type *	<input type="text" value="IRRL Disclosure Compliance"/>		
File to Upload *	<input type="button" value="Choose File"/> The Ultim...ummy Doc.pdf		
Document Name *	<input type="text" value="IRRL Disclosure"/>		
Public Document	<input checked="" type="checkbox"/>		

IRRL 01/30/2017 Status: Case Initiated Correspondence History

2 Correspondence(s)

Upload Date	Document Type	Document Name	File Name	Correspondence Type
03/21/2018 12:26:13	IRRL Disclosure Compliance	test	The Ultimate Dummy Doc.pdf	Document Received
03/16/2018 13:42:21	IRRL Disclosure Compliance	test	The Ultimate Dummy Doc.pdf	Document Received

Potential Enhancements

- Establishment of Net Tangible Benefit
- Automation of the recoupment statement at IRRRL case number request
- Veteran immediately notified of case request and NTB
- Hard stop if conditions are not met

Misleading Advertising

- Offers to skip mortgage payments
- Offers to receive escrow refund
- Low-interest rates or low initial payments without specific terms
- Aggressive sales tactics
- Suggesting special relationship with VA that ONLY you (lender) can provide loan opportunity
- Use of VA logos or giving the appearance letters come directly from VA