# Bulletin 02152019 VA Refinance Changes (updated 4/3/2019)

TO: All Crescent Mortgage Partners
FROM: Crescent Mortgage Underwriting Department
DATE: February 14, 2019

The Veterans Administration has published changes to requirements for cash-out refinancing loans effective with applications taken on or after February 15, 2019 (VA Circular 26-18-30 and Change 1 plus VA Circular 26-19-05, Exhibit A, and Change 1). These changes are required to comply with *The Economic Growth, Regulatory Relief, and Consumer Protection Act* (Section 309 of Public Law 115-174). Loan applications that do not meet the new requirements will not be eligible for guaranty by VA and cannot be approved. Loans submitted without the required disclosure will not be accepted by Crescent's Submissions Team.

The circulars are attached but here are some of the highlights.

1. a. LTV - **VA will no longer guaranty refinancing loans when the LTV exceeds 100%.**
   b. LTV Calculation – **The VA Funding Fee will now be included in the LTV calculation.** The TOTAL loan amount cannot exceed the appraised value (Notice of Value).
2. Net Tangible Benefit (NTB) – The lender 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 loan application and again at loan closing.**
   a. The proposed loan must satisfy at least one of the following eight NTB:
      (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. If the loan being refinanced is an ARM loan or a modified loan then the current interest rate must be used to determine whether this requirement has been met.
      (iv) The monthly (principal and interest) payment on the new loan is lower than the monthly (principal and interest) payment on the loan being refinanced;
      (v) The new loan results in an increase in the borrower's monthly residual income. In cases where the tax and insurance (TI) amounts are changing between the applicate date and the closing date of the refinance, the new TI amount will be used in determining residual income for both the current and the proposed refinance loan.
      (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.

b. A comparison of key loan characteristics or terms for the existing and the proposed refinancing loan must also be provided. This is similar to the loan comparison analysis that has been required for some time but has more data points required.
   (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
c. An estimate of the home equity being removed from the home as a result of the refinance and explanation how the removal of home equity may affect the Veteran must also be on the disclosure.

3. 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 and TYPE II refinancing loans, regardless of the loan type being refinanced.* A loan is considered seasoned on the later of the date that is:
   a. 210 days after the date the first payment is **MADE** (GNMA requirement) AND
   b. Six monthly payments have been made on the loan.

   For loans being refinanced within 1 year form the date of closing, lenders must obtain a payment history/ledger from the servicing lender documenting all payments, unless a credit bureau supplement identifies all payments made in that time frame.
   *Although the VA circulars indicate that the seasoning applies only when a VA loan is being paid off, we must also meet the seasoning requirements of the secondary market and investors. GinnieMae policy mandates that seasoning requirements must be met for ALL loans, regardless of type of loan being paid off.
   **THE LOAN SEASONING REQUIREMENTS WILL APPLY TO CONSTRUCTION LOAN PAYOFFS AS WELL AS OTHER TYPES OF MORTGAGES.**
4. Fee Recoupment and Recoupment Calculation. Divide all fees, closing costs, expenses, and incurred costs (not including pre-paids) by the reduction of the monthly principal and interest payment as a result of the refinance. The fee recoupment period may not exceed 36 months from the date of the loan closing.

The disclosure will be added to Motion, see attached for a sample of the disclosure and more information on how to input the data so the disclosure generates the correct information. Please note, there IS some data that will not fill in on the form at this time and will be corrected in future updates to Motion. This information must be calculated manually and inserted in the appropriate place on the disclosure. **Do not let the Veteran sign if there are any blank fields.**

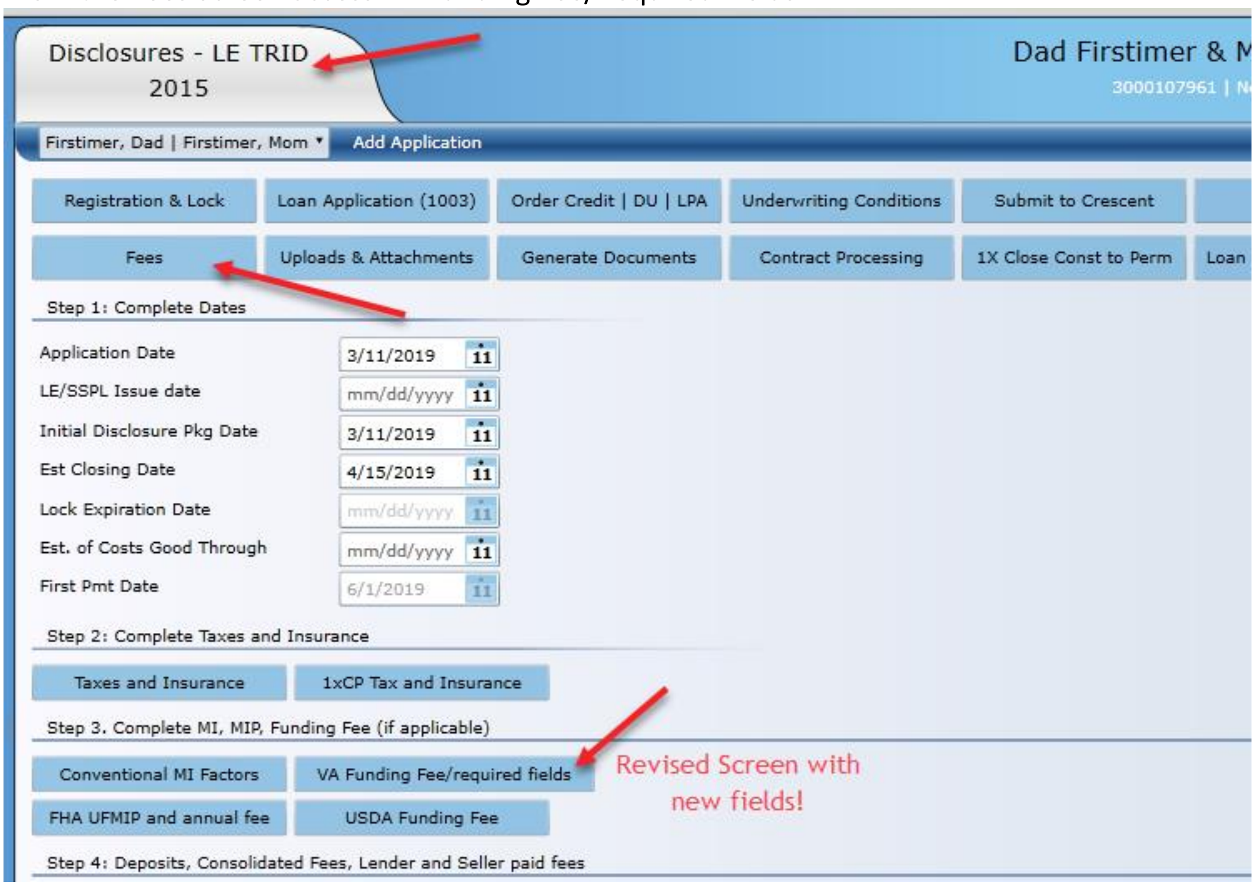
Please remember, this disclosure MUST be done within 3 days of the date of the loan application. We suggest that you request the documents from the existing loan closing PRIOR to taking the loan application so that you can complete the disclosure properly and completely. Loan requests submitted to Crescent that do not meet the disclosure requirements cannot be approved. Circular 26-19-05 indicates that a reasonable estimate is acceptable but every effort must be made to provide accurate information.

Fannie Mae has advised that DU will be updated to reflect the new LTV calculations.  Loans with applications taken on or after February 15, 2019 that are being run through DU should be resubmitted to DU after the weekend of February 16th to ensure that they receive the correct messaging and calculations.

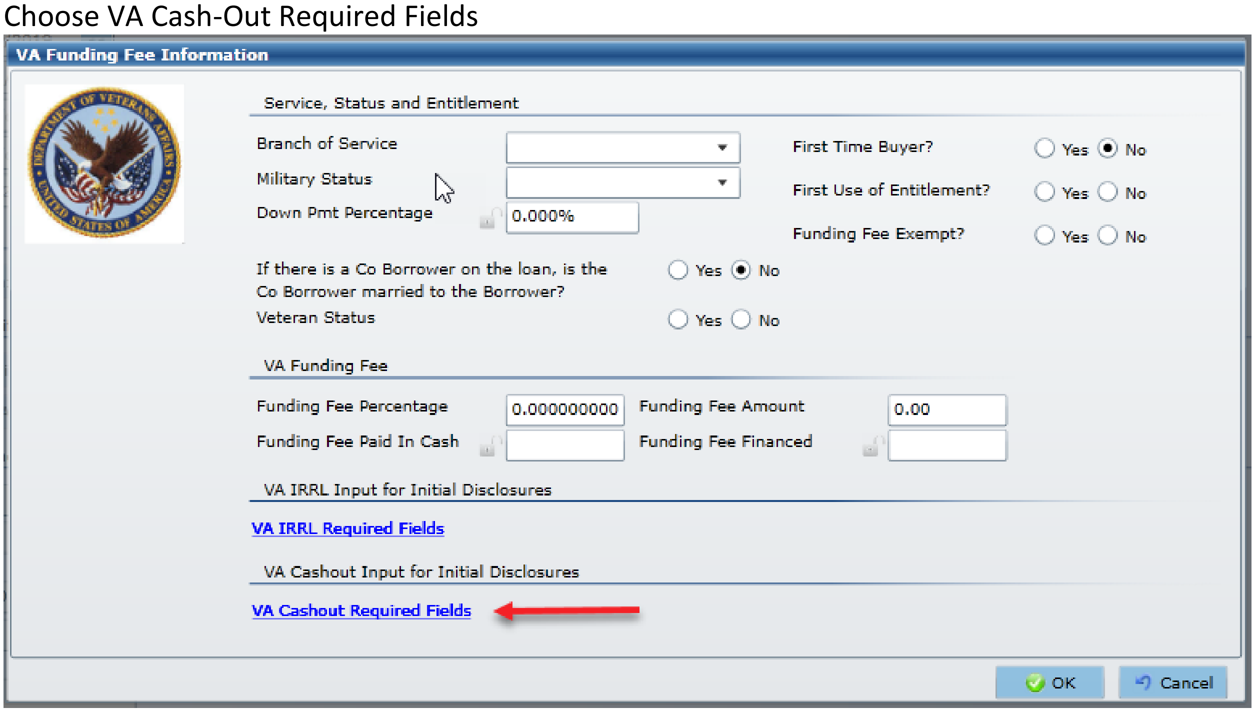
Please contact your Crescent Account Executive if you have any questions.  As always, we thank you for your business.

# UPDATED 3/12/2019
# HOW TO INPUT THE INFORMATION INTO MOTION

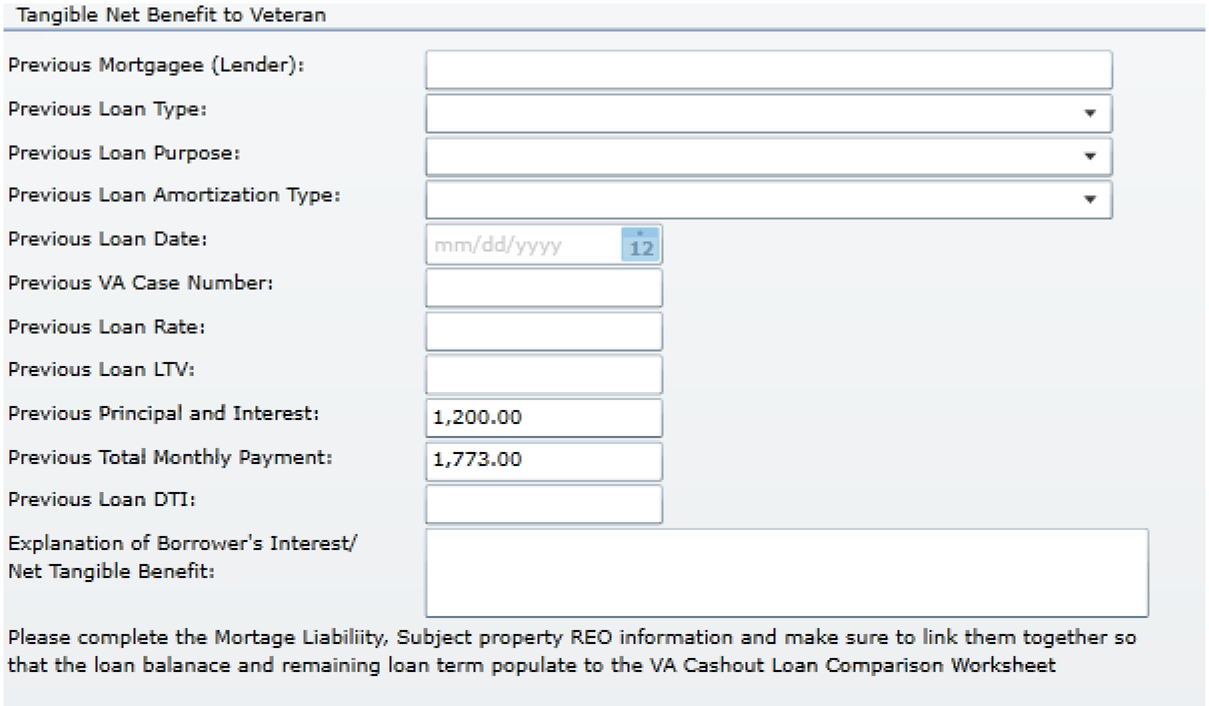
From the Fees Screen access VA Funding Fee/Required Fields.



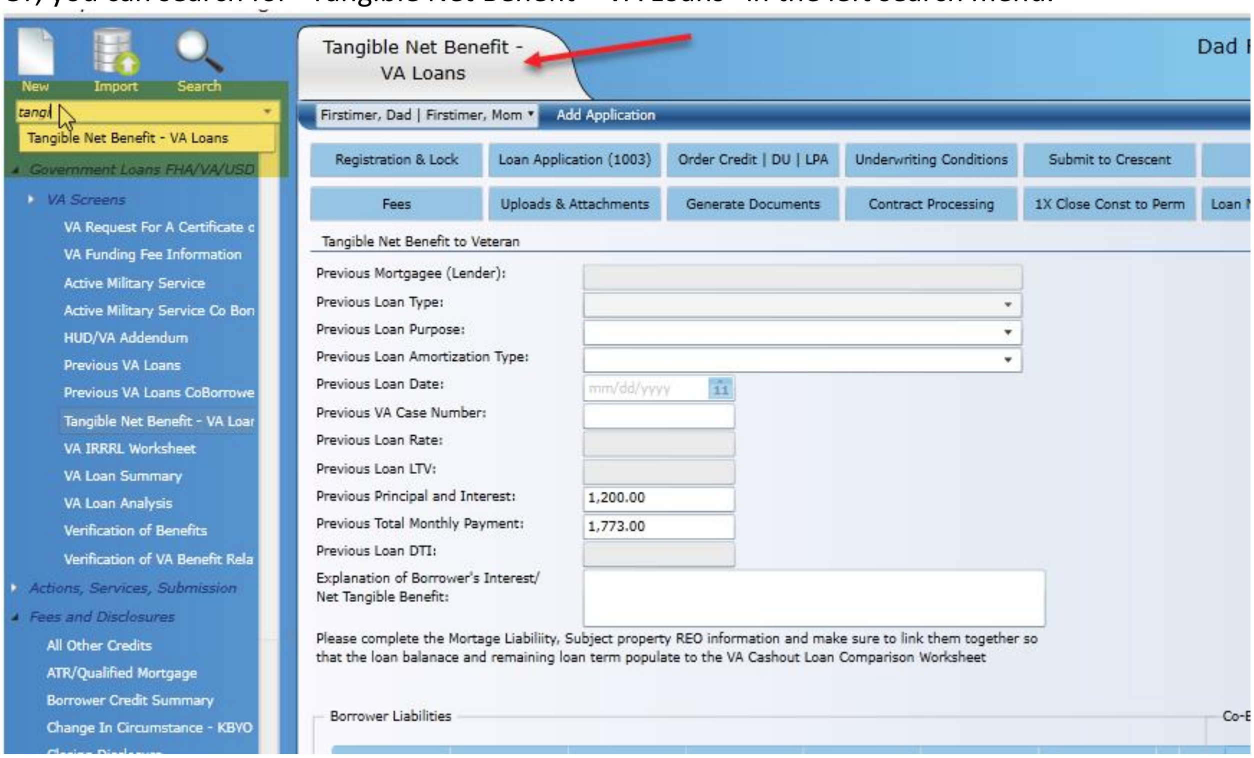

Choose VA Cash-Out Required Fields



Complete all fields




Or, you can search for “Tangible Net Benefit – VA Loans” in the left search menu.



Veterans Benefits Administration
Department of Veterans Affairs
Washington, DC 20420

Circular 26-19-05
February 14, 2019

**VA-Guaranteed Cash-Out Refinancing Home Loans (AQ42)**

1. Purpose. This Circular clarifies the Department of Veterans Affairs' (VA) new policies regarding VA-guaranteed cash-out refinancing loans, including refinancing of construction loans (construction-to-perm).

2. Background. Public Law 115-174, *The Economic Growth, Regulatory Relief, and Consumer Protection Act* (the Act), was signed into law by President Donald Trump on May 24, 2018. Section 309 of the Act provides new statutory criteria to determine when VA may guarantee a refinancing loan. The Act required VA to promulgate regulations for cash-out refinancing loans, specifically refinancing loans in which the loan amount will exceed the payoff amount of the loan being refinanced.

a. On December 17, 2018, VA published interim final rule (AQ42) in the federal register setting forth requirements relating to cash-out refinance loans. See https://www.federalregister.gov/documents/2018/12/17/2018-27263/loan-guaranty-revisions-to-va-guaranteed-or-insured-cash-out-home-refinance-loans. This includes the Regulatory Impact Analysis (RIA) that provides details concerning VA's analysis in developing this rule. AQ42 amends VA regulations pertaining to all cash-out refinancing loans (38 CFR 36.4306). This includes refinancing of construction loans (construction-to-perm loans), regardless of whether there is a change in the principal loan amount. However, AQ42 does not implement rules pertaining to interest rate reduction refinance loans (IRRRLs).

b. VA will update IRRRL regulations in an upcoming rulemaking.

3. Effective date. The rule is effective on February 15, 2019, and will apply to VA cash-out refinance loan applications taken on, or after, this date. Loan applications taken prior to the effective date that were submitted to an Automated Underwriting System (AUS) either before or after the effective date, where subsequent and/or final AUS submissions result in a Refer recommendation, require manual underwriting.

4. Action. All-VA guaranteed cash-out refinancing loans must comply with the Act and AQ42. All refinancing loan applications taken on or after the effective date that do not meet the following requirements may be subject to indemnification or the removal of the guaranty. Failure to provide initial disclosures to the Veteran within 3 business days from the initial application date and at closing may result in indemnification of the loan up to 5 years. There are three categories of refinance loans; Interest Rate Reduction Refinancing Loans (IRRRL), TYPE I Cash-Out Refinance, and TYPE II Cash-Out Refinance.

(LOCAL REPRODUCTION AUTHORIZED)

a. Definitions.

(1) An Interest Rate Reduction Refinancing Loan (IRRRL) is a refinancing loan made to refinance an existing VA-guaranteed home loan at a lower interest rate.

(2) TYPE I Cash-Out Refinance is 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 is a refinancing loan in which the loan amount (including VA funding fee) exceeds the payoff amount of the loan being refinanced.

b. Loan-to-Value (LTV). VA will no longer guaranty refinancing loans when the LTV exceeds 100 percent. Inclusion of any funding fee that is financed, in part or whole, cannot cause the loan to exceed the reasonable value of the property.

(1) LTV Calculation. Divide the total loan amount (including VA funding fee, if any) by the reasonable value of the property determined by the appraiser.

c. Net Tangible Benefit (NTB). NTB standards apply to all cash-out refinancing loans. It consists of the NTB test, Loan Comparison, and Home Equity Disclosure

(1) NTB Test. All cash-out refinancing loans must past pass the NTB test. This requirement is met if the refinancing loan satisfies at least one of the following:

(a) The new loan eliminates monthly mortgage insurance; or
(b) Loan term of the new loan is less than the loan term of the loan being refinanced; or
(c) Interest rate of the new loan is less than the interest rate of the loan being refinanced. (Note: If the loan being refinanced had an adjustable interest rate or was modified, the current interest rate must be used when determining if this requirement has been met.); or
(d) The monthly (principal and interest) payment of the new loan is less than the monthly (principal and interest) payment of the loan being refinanced; or
(e) The Veteran's monthly residual income is higher as a result of the new loan. (residual income, including refinancing monthly PITI (principal, interest, taxes, and insurance) payment vs. current residual income, including monthly PITI payment of the loan being refinanced.) In cases where TI amounts are changing between the application date and the closing date of the refinance transaction, the new TI amount will be used in determining residual income for both the current and refinanced loan); or
(f) The new loan is used to payoff the Veteran's interim construction loan; or
(g) The new loan LTV is equal to or less than 90 percent of the reasonable value of the home, i.e. LTV $\leq$ 90%; or
(h) Refinance of an adjustable-rate mortgage to a fixed-rate mortgage.

(2) Loan Comparison Disclosure. The lender must provide the Veteran a comparison of the new loan to the existing loan being refinanced. VA requires lenders to generate two loan comparison disclosures, one within 3 business days from the initial date of the loan

application and at loan closing. The borrower must certify receipt of both disclosures (i.e. signature, e-signature, email from borrower certifying receipt, email read receipts, system time/date stamp where a borrow certified receipt, etc).

(a) Initial 3-Day Disclosure. Lender's shall provide a reasonable estimate within 3 business days of loan application. Reasonably accurate estimates, may involve the use of borrower documentation, such as their mortgage statement, closing documents, their own estimation of the existing loan terms, online property valuation tools, and manual calculations. Lenders are encouraged, but not required, to continually update the disclosure as additional, and more accurate, information becomes available throughout the origination process.

(b) Final Loan Closing Disclosure. The final loan comparison disclosure provided at loan closing shall be accurate with respect to the new loan information, while the initial loan information may be a generally accurate representation of the existing loan, given that payments may be in transit, tax and insurance amounts may be pending, and payoffs may fluctuate when the final closing date has not been determined.

(c) Contents of the Initial 3-Day Disclosure and the Final Loan Closing Disclosure. VA has provided a sample disclosure in Exhibit A that includes both the loan comparison and home equity provisions stated in this Circular. The following information will be provided in the disclosures:

1. Refinancing loan amount (including VA funding fee, if financed into the loan) vs. the payoff amount (including fees, escrow shortages, and prorated interest) of the loan being refinanced.
2. Interest Rate
3. Mortgage Loan Type (i.e., fixed, adjustable)
4. Loan term of the refinancing loan vs. the remaining term of the loan being refinanced. The term may be expressed in months or years and months.
5. The total payments the Veteran will have paid after making all payments (principal and interest) as scheduled on the refinancing loan vs. the total remaining payments the Veteran will have paid after making all remaining payments of principal, interest, and mortgage insurance (if applicable) as scheduled on the loan being refinanced.
6. LTV of the refinancing loan vs. loan payoff (including fees, escrow shortages, and prorated interest) to current value of the loan being refinanced.

(3) Home Equity Disclosure. The lender must disclose the amount of home equity being removed from the home as a result of the new loan to the Veteran within 3 business days from the initial date of the loan application and at loan closing. The disclosure must also explain to the Veteran how the removal of home equity may affect the sale or refinance of the home in the future. Similar to the Loan Comparison Disclosure, the borrower must certify receipt of the Home Equity Disclosure (i.e. signature, e-signature, email from borrower certifying receipt, email read receipts, system time/date stamp where a borrow certified receipt, etc.). VA has provided a sample disclosure in Exhibit A that includes both the loan comparison and home equity provisions stated in this Circular.

(a) For the initial home equity disclosure, lenders may use estimated loan payoff or unpaid principal balance and estimated current property value to determine the home equity being removed from the home. However, the lender must use the final payoff amount (including fees, escrow shortages, and prorated interest) and the reasonable value shown on the Notice of Value (NOV) to determine the home equity being removed from the home on the home equity disclosure provided to the Veteran at loan closing.

d. Loan Seasoning. Loan seasoning applies to all cash-out refinancing loans made to refinance a VA-guaranteed home loan (VA-to-VA). A cash-out refinancing loan, Type I nor Type II, is not eligible for guaranty by VA, if the VA-guaranteed loan being refinanced has not been seasoned as of the date of closing. A loan is considered seasoned if both of the following conditions are met as of the date of loan closing:

(1) The first monthly payment of the loan being refinanced was made 210 days or more prior to the closing date of the refinancing loan; **and**
(2) Six monthly payments have been made on the loan being refinanced.

(3) For loans being refinanced within 1 year from the date of closing, lenders must obtain a payment history/ledger from the servicing lender documenting all payments. If the loan is selected for audit by VA, the lender must include the payment ledger/history of the loan being refinanced in the loan file for VA review.

e. Fee Recoupment. Fee recoupment applies to TYPE I cash-out refinancing loans made to refinance a VA-guaranteed home loan (VA-to-VA). To obtain a Loan Guaranty Certificate (LGC) the lender must certify that the recoupment period of fees, expenses, and closing costs (included in the loan and paid outside of closing), do not exceed 36 months from the date of the loan closing.

(1) Recoupment Calculation: The recoupment period is calculated by dividing all fees (not including VA funding fee per), expenses, and closing costs included in the loan and paid outside of closing by the reduction of monthly principal and interest (PI).

(a) Example:

| | |
|---|---|
| PI (VA loan being refinanced): | $654.00 |
| PI (new VA refinancing loan): | - $604.00 |
| Reduction of monthly PI: | = $ 50.00 |

If the loan being refinanced loan has been modified, the reduction of monthly PI should be computed using the modified monthly PI of the loan being refinanced.

(b) Example:

| | |
|---|---|
| Fees/expenses/closing cost: | $1,436.49 |
| Reduction of monthly PI: | ÷ $ 50.00 |
| Fee Recoupment Period: | = 29 months (28.72 months rounded) |

(c) Escrow and prepaid expenses, such as, insurance, taxes, special assessments, and homeowners' association (HOA) fees shall be excluded from the recoupment calculations.

(d) VA allowable fee as established in 38 C.F.R. § 36.4313 offset by lender credits and/or premium pricing may also be excluded from the recoupment calculation.

4. Rescission: This Circular is rescinded April 1, 2021.

By Direction of the Under Secretary for Benefits

Jeffrey F. London
Director, Loan Guaranty Service

Distribution: CO: RPC 2021
SS (26A1) FLD: VBAFS, 1 each (Reproduce and distribute based on RPC 2021)

Veterans Benefits Administration
Department of Veterans Affairs
Washington, DC 20420

Circular 26-19-05
Change 1
February 15, 2019

**VA-Guaranteed Cash-Out Refinancing Home Loans (AQ42)**

1. Purpose. The purpose of this Circular is to make a change to page 4, section d, subsection (3), of Circular 26-19-05.

2. Therefore, Circular 26-19-05 is changed as follows:

Page 4, section d, subsection (3): replace the entirety of subsection (3) as follows:

(3) For loans being refinanced within 1 year from the date of closing, lenders must obtain a payment history/ledger documenting all payments, unless a credit bureau supplement clearly identifies all payments made in that timeframe. If the loan is selected for audit by VA, the lender must include the payment ledger/history and/or credit bureau supplement of the loan being refinanced in the loan file for VA review.

3. Rescission: This Circular is rescinded April 1, 2021.

By Direction of the Under Secretary for Benefits

Jeffrey F. London
Director
Loan Guaranty Service

Distribution: CO: RPC 2021
SS (26A1) FLD: VBAFS, 1 each (Reproduce and distribute based on RPC 2021)

(LOCAL REPRODUCTION AUTHORIZED)

# VA-Guaranteed Home Loan Cash-Out Refinance Comparison Certification

## PROPOSED REFINANCE LOAN

*Sections I through III should be completed within 3 business days of the loan application. Please note that the information provided in these sections represent an **estimate** of the refinance loan and its impact.*

### Section I – PROPOSED REFINANCE LOAN COMPARISON

(This section to be completed by the Lender. Please refer to instructions for more information.)

Loan Application Date: ________________________

| | EXISTING LOAN | PROPOSED LOAN | ESTIMATED IMPACT OF REFINANCE |
|---|---|---|---|
| VA Loan Number (LIN) | ____________ | ____________ | |
| Loan Balance | $____________ | $____________ | $____________ |
| Monthly Payment | $____________ | $____________ | $____________ |
| Remaining Term (months) | ___________ | ___________ | ___________ |
| Loan Type | ___________ | ___________ | N/A |
| Interest Rate | ________% | ________% | ________% |
| Total of the Remaining Scheduled Payments | $____________ | $____________ | $____________ |
| Loan-to-Value Percentage | ________% | ________% | ________% |
| Home Equity Remaining | $____________ | $____________ | $____________ |

### Section II – NET TANGIBLE BENEFIT FOR PROPOSED REFINANCE LOAN

(This section to be completed by the Lender. Please refer to instructions for more information.)

To the best of my knowledge, I, ___[insert Lender name]____, have determined that the proposed refinance loan outlined in Section I meets the following net tangible benefits (check all that apply):

- ☐ The new loan eliminates monthly mortgage insurance, whether public or private, or monthly guaranty insurance
- ☐ The term of the new loan is shorter than the term of the loan being refinanced
- ☐ The interest rate on the new loan is lower than the interest rate on the loan being refinanced
- ☐ The payment on the new loan is lower than the payment on the loan being refinanced
- ☐ The new loan results in an increase in the borrower's monthly residual income as explained by 38 CFR 36.4340(e)
- ☐ The new loan refinances an interim loan to construct, alter, or repair the primary home
- ☐ The new loan amount is equal to or less than 90 percent of the reasonable value of the home
- ☐ The new loan refinances an adjustable rate mortgage to a fixed rate loan

### Section III – BORROWER CERTIFICATION FOR PROPOSED REFINANCE LOAN

I/We hereby certify that I/we understand the estimated effect the proposed refinancing has on my loan balance, payments, interest rate, term, total payback of payments, and remaining equity in my home should I/we accept a refinance loan.

**Borrower** ____________________________________________ **Date:**

**Co-Borrower** __________________________________________ **Date:**

SAMPLE CERTIFICATION

## FINAL REFINANCE LOAN

*Sections IV through VII should be completed at or before the closing of the refinance loan.*

### Section IV – FINAL REFINANCE LOAN COMPARISON

(This section to be completed by the Lender. Please refer to instructions for more information.)

| | EXISTING LOAN | NEW LOAN | IMPACT OF REFINANCE |
|---|---|---|---|
| VA Loan Number (LIN) | ____________ | ____________ | |
| Loan Balance | $____________ | $____________ | $____________ |
| Monthly Payment | $____________ | $____________ | $____________ |
| Remaining Term (months) | ____________ | ____________ | ____________ |
| Loan Type | ____________ | ____________ | N/A |
| Interest Rate | ________% | ________% | ________% |
| Total of the Remaining Scheduled Payments | $____________ | $____________ | $____________ |
| Loan-to-Value Percentage | ________% | ________% | ________% |
| Home Equity Remaining | $____________ | $____________ | $____________ |

### Section V – REFINANCE CLOSING SUMMARY

(This section to be completed by the Lender. Please refer to instructions for more information.)

Amount of Cash Directly Disbursed to Borrower(s): $______________

Payoffs Disbursed, Excluding Mortgages, on Behalf of Borrower(s): $______________

Amount of Increase in Total Paid Over Life of Loan: $______________

### Section VI – NET TANGIBLE BENEFIT FOR FINAL REFINANCE LOAN

(This section to be completed by the Lender. Please refer to instructions for more information.)

I, ___[insert Lender name]____, have determined that the new refinance loan outlined in Section IV meets the following net tangible benefits (check all that apply):

- ☐ The new loan eliminates monthly mortgage insurance, whether public or private, or monthly guaranty insurance
- ☐ The term of the new loan is shorter than the term of the loan being refinanced
- ☐ The interest rate on the new loan is lower than the interest rate on the loan being refinanced
- ☐ The payment on the new loan is lower than the payment on the loan being refinanced
- ☐ The new loan results in an increase in the borrower's monthly residual income as explained by 38 CFR 36.4340(e)
- ☐ The new loan refinances an interim loan to construct, alter, or repair the primary home
- ☐ The new loan amount is equal to or less than 90 percent of the reasonable value of the home
- ☐ The new loan refinances an adjustable rate mortgage to a fixed rate loan

### Section VII – BORROWER CERTIFICATION FOR FINAL REFINANCE LOAN

I/We hereby certify that I/we understand the effect refinancing has on my loan balance, payments, interest rate, term, total payback of payments, and remaining equity in my home should I/we accept a refinance loan.

**Borrower** ______________________________________________ **Date:**

**Co-Borrower** ___________________________________________ **Date:**

SAMPLE CERTIFICATION

## INFORMATION AND INSTRUCTIONS FOR THE CASH-OUT REFINANCE COMPARISON CERTIFICATION

**IMPORTANT:** Please read the information below carefully to help you understand the information presented on this form. Some sections of the form also contain notes or specific instructions for completing that section.

**What is the purpose of this certification?**
This form/document is intended to provide the *Borrower(s)* with a comparison of key loan characteristics on both an existing loan and a (proposed) cash-out refinance loan. The information provides the *Borrower(s)* with information about the overall cost of the cash-out refinance loan and assists in making an informed decision about whether to proceed with the refinance loan.

**Who completes this certification?**
The *Lender* of the refinanced loan must provide the *Borrower(s)* with completed Sections I and II not later than 3 business days from the date of the loan application. The *Lender* must then provide the *Borrower(s)* with completed Sections IV, V, and VI at loan closing.

The *Borrower(s)* must review the form and certify via signature that he/she received the information on both occasions.

**Do I need to keep a copy of this certification?**
*Lenders* must maintain copies of all loan origination records of VA guaranteed home loans for at least 2 years from the date of loan closing. The *Borrower(s)* should also keep a copy of the certification as part of his/her loan records.

**Sections I and IV – Refinance Loan Comparison**
The *Lender* should complete the Refinance Loan Comparison for both the initial disclosure at application and the disclosure at closing. Important: *For the initial disclosure (e.g., Section I)*, when possible, the *Lender* may use estimated information about the existing loan and proposed loans. If such information is not available or is incomplete (i.e., current appraised value of the home), the *Lender* must estimate this information and explain this to the *Borrower*.

**VA Loan Identification Number (LIN)** should be provided for the existing loan and the proposed/new loan. If the existing loan is not a VA guaranteed or insured loan, the *Lender* should indicate the type of existing loan (i.e., FHA, conventional, etc.).

The **(Estimated) Impact of Refinance** must be shown as an increase or (decrease) from the existing loan to the proposed/new loan.

**Loan Balance** reflects the remaining unpaid principal balance for the existing loan, including any second liens or HELOCS, and the principal balance for the proposed/new refinance loan. For the proposed/new refinance loan, this amount should include any VA funding fee and other (estimated) closing costs if such costs are financed as part of the loan.

**Monthly Payment** reflects the total monthly amount of principal, interest, and mortgage insurance (if any) owed by the borrower on the existing loan and proposed/new refinance loan.

The *Lender* should indicate the appropriate **Loan Type** for the existing loan and proposed/new refinance loan (i.e., Fixed; Adjustable Rate Mortgage (ARM); Hybrid ARM; Home Equity Line of Credit (HELOC)). The *Borrower* should consult with the Lender if more information is needed about the listed loan type.

SAMPLE CERTIFICATION

**Total of the Remaining Scheduled Payments** reflects the (estimated) total the *Borrower* will have paid after making all remaining payments of principal, interest, and mortgage or guaranty insurance (if applicable) for the existing loan and proposed/new refinance loan.

**The Loan-to-Value Percentage** is calculated by dividing the Loan Balance by the appraised value of the property, expressed as a percentage. Important: *For the initial disclosure (e.g., Section I)*, the *Lender* must estimate the current appraised value of the property if a current appraisal is not available. *The final disclosure (e.g., Section IV)* must use the VA appraisal (also known as the Notice of Value (NOV)) to calculate the Loan-to-Value Percentage.

**Home Equity** reflects the difference between the home's reasonable (appraised) value and the outstanding balance of all liens on the property.

**Section II and VI – Net Tangible Benefit**

To be eligible for VA guaranty, a cash-out refinance loan must demonstrate that it meets at least one of eight net tangible benefits. In completing this form, the *Lender* must select all net tangible benefits that apply to the proposed/new refinance loan. The *Borrower* should consult with the *Lender* if additional information is needed about each net tangible benefit selected and how the *Lender* determined it was met.

**Section V – Refinance Closing Summary**

The *Lender* should complete this section only for the disclosure provided at closing. The purpose of this section is to provide the *Borrower(s)* with a summary of the proposed refinance loan BENEFIT (e.g., the amount of cash directly disbursed to the *Borrower(s)* and/or the amount of payoff disbursed on behalf of the *Borrower(s)* at closing) and COST (e.g., the amount of increase in total paid over life of the refinance loan for this one-time cash disbursement). Payoffs should include all payoffs for debt on behalf of the *Borrower(s)*, excluding mortgages, at time of closing. If the *Borrower* has any concerns or questions about this information, he/she should discuss these with the *Lender* prior to closing.

SAMPLE CERTIFICATION

Veterans Benefits Administration
Department of Veterans Affairs
Washington, D.C. 20420

Circular 26-18-30
December 19, 2018

**Revisions to VA-Guaranteed Cash-Out Refinancing Home Loans (RIN 2900-AQ42)**

1. Purpose. This purpose of this Circular is to announce the Department Veterans Affairs' (VA) new policies regarding VA-guaranteed cash-out refinancing loans, including refinancing of construction loans (construction-to-permanent).

2. Background. On December 17, 2018, VA published an interim final rule addressing VA guaranty requirements for cash-out refinance loans (83 FR 64459). This rule implements section 309 of Public Law 115-174, *The Economic Growth, Regulatory Relief, and Consumer Protection Act* (the Act). Section 309 of the Act provides new statutory criteria to determine when VA may guarantee a refinancing loan. The Act required VA to promulgate regulations for cash-out refinancing loans, specifically refinancing loans in which the loan amount will exceed the payoff amount of the loan being refinanced. This rule amends VA regulations pertaining to all cash-out refinancing loans (38 CFR 36.4306). This includes refinancing of construction loans (construction-to-permanent loans), regardless of whether there is a change in the principal loan amount. VA is accepting public comments on the interim final rule through February 15, 2019, and encourages lenders to submit official comments and/or suggestions through the *Federal Register* at https://www.regulations.gov.

3. Effective. The rule is effective on February 15, 2019, and will apply to VA cash-out refinance loan applications taken on, or after, this date.

4. Action.

a. VA-guaranteed cash-out refinancing loans must meet the requirements of the new law. VA has 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.

b. This rule does not apply to VA regulations pertaining to IRRRLs. Updates to VA's IRRRL regulations will be published separately from this Circular. Lenders and VA Regional Loan Center (RLC) personnel should continue to follow current IRRRL regulations and VA policy guidance shown in VA Circular 26-18-13.

c. All cash-out refinancing loan applications taken on or after February 15, 2019, as reflected by the application date, that do not meet the following requirements will not be eligible for guaranty by VA:

LOCAL REPRODUCTION AUTHORIZED

(1) Loan-to-Value (LTV). VA will no longer guaranty refinancing loans when the LTV exceeds 100 percent. If the Veteran chooses to close a loan in which the loan amount exceeds 100 percent of the reasonable value of the property, the Veteran must pay the amount which exceeds 100 percent of the property value at loan closing.

(a) LTV Calculation. Divide 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.

(2) Net Tangible Benefit Test (NTB). 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:

(a) The refinancing loan satisfies at least one of the following eight NTB:

(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.

(b) A comparison of key loan characteristics or terms for the existing and refinancing loan, including:

(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

(c) 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.

(3) 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:

(a) 210 days after the first monthly payment is made, and

(b) Six monthly payments have been made on the loan.

(4) Fee Recoupment. The recoupment period of all fees, closing costs, expenses (other than taxes, escrow, insurance, and like assessments), and incurred costs must not exceed 36 months from the date of loan closing. The lender must certify the recoupment period to VA to obtain a Loan Guaranty Certificate. This requirement only applies to TYPE I cash-out refinancing loans made to refinance an existing VA-guaranteed home loan.

(a) Recoupment Calculation. Divide all fees, closing costs, expenses, and incurred costs (excluding taxes, escrow, insurance, and like assessments), by the reduction of the monthly principal and interest 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.

5. Rescission: This Circular is rescinded January 1, 2020.

By Direction of the Under Secretary for Benefits

Jeffrey F. London
Director
Loan Guaranty Service

Distribution: CO: RPC 2021
SS (26A1) FLD: VBAFS, 1 each (Reproduce and distribute based on RPC 2021)

Veterans Benefits Administration
Department of Veterans Affairs
Washington, DC 20420

Circular 26-18-30
Change 1
December 21, 2018

**Revisions to VA-Guaranteed Cash-Out Refinancing Home Loans (RIN 2900-AQ42)**

1. Purpose. The purpose of this Circular is to clarify loan seasoning requirements for TYPE II cash-out refinancing loans.

Therefore, Circular 26-18-30 is changed as follows:

Page 2, paragraph (3): Under Loan Seasoning, delete "This requirement applies to TYPE I refinancing loans made to refinance an existing VA-guaranteed home loan and all TYPE II refinancing loans." and replace with "This requirement applies to TYPE I and TYPE II refinancing loans made to refinance an existing VA-guaranteed home loan."

By Direction of the Under Secretary for Benefits

Jeffrey F. London
Director, Loan Guaranty Service

Distribution: CO: RPC 2021
SS (26A1) FLD: VBAFS, 1 each (Reproduce and distribute based on RPC 2021)