

# 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	
<b>A. Origination Charges</b>		<b>E. Taxes and Other Government Fees</b>	
0.250 % of Loan Amount (Points)	<b>\$393</b>	Recording Fees and Other Taxes	<b>\$145</b>
	\$393	Transfer Taxes	
<b>B. Services You Cannot Shop For</b>		<b>F. Prepays</b>	
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
	<b>\$866</b>	Property Taxes ( months)	
<b>C. Services You Can Shop For</b>		<b>G. Initial Escrow Payment at Closing</b>	
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.	
	<b>\$775</b>	Property Taxes \$301.43 per month for 6 mo.	\$1,809
<b>D. TOTAL LOAN COSTS (A + B + C)</b>		<b>H. Other</b>	
	<b>\$2,034</b>		<b>\$0</b>
		<b>I. TOTAL OTHER COSTS (E + F + G + H)</b>	
		<b>\$2,667</b>	
		<b>J. TOTAL CLOSING COSTS</b>	
		<b>\$4,501</b>	
		D + I	
		\$4,701	
		Lender Credits	
		<b>-\$200</b>	
		<b>Calculating Cash to Close</b>	
		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	
<b>A. Origination Charges</b>	<b>\$5,002.01</b>		
01 2.125 % of Loan Amount (Points)	\$3,458.23		
02 Origination Fee	\$1,543.78		
03			
04			
05			
06			
07			
08			
<b>B. Services Borrower Did Not Shop For</b>	<b>\$861.66</b>		
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			
<b>C. Services Borrower Did Shop For</b>	<b>\$1,060.00</b>		
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			
<b>D. TOTAL LOAN COSTS (Borrower-Paid)</b>	<b>\$6,923.67</b>		
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 their VA Regional Loan Center for guidance.*

**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. VA will exercise latitude with lenders during this transition.*

**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% or more at closing and will also be required to make this same certification in the 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 requiring 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), VA requires the funding fee to be included as a cost to be recouped regardless of where it is positioned on the LE or CD.*

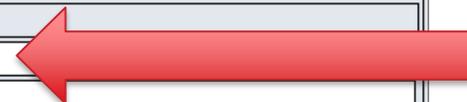
**Question 8:** Based on section 3.b. (1) of the circular it would appear that the fees would need to be itemized on the Veteran's Statement based on the categories stated and the lump sum calculation of closing costs would no longer be acceptable?

*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:	<b>Calculate</b>



# 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	
<input type="button" value="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		
<b>Submit</b>		

# Uploading Disclosures

## Correspondence

### Enter Correspondence

<b>Submission Date*</b>	<input type="text" value="03/21/2018"/>	<b>User</b>	SILVIINO BIEG
<b>Document Association *</b>	<input type="text" value="IRRL 01/30/2017"/>	<b>Note</b>	<input type="checkbox"/> Public Note
<b>Correspondence Type *</b>	<input type="text" value="Document Received"/>	<input type="text" value="test"/>	
<b>Document Type *</b>	<input type="text" value="IRRL Disclosure Compliance"/>		
<b>File to Upload *</b>	<input type="button" value="Choose File"/> The Ultim...ummy Doc.pdf		
<b>Document Name *</b>	<input type="text" value="IRRL Disclosure"/>		
<b>Public Document</b>	<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	<a href="#">The Ultimate Dummy Doc.pdf</a>	Document Received
03/16/2018 13:42:21	IRRL Disclosure Compliance	test	<a href="#">The Ultimate Dummy Doc.pdf</a>	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