

VA Lenders Handbook (VA Pamphlet 26-7), Chapter 6, Topic 1 — Interest Rate Reduction Refinancing Loans (IRRRLs)

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1. Interest Rate Reduction Refinancing Loans (IRRRLs) Change Date April 10, 2009, Change 11 • This section has been changed to update hyperlinks and to make minor grammatical edits. a. What is an IRRRL? An IRRRL is a VA-guaranteed loan made to refinance an existing VA- guaranteed loan, generally at a lower interest rate than the existing VA loan, and with lower principal and interest payments than the existing VA loan. Generally, no appraisal, credit information or underwriting is required on an IRRRL, and any lender may close an IRRRL automatically. Note: Exceptions and specific requirements are explained in the remainder of this section. b. Interest Rate Decrease Requirement An IRRRL (which can be a fixed rate, hybrid Adjustable Rate Mortgage (ARM) or traditional ARM) must bear a lower interest rate than the loan it is refinancing unless the loan it is refinancing is an ARM. c. Payment Decrease/ Increase Requirements The principal and interest payment on an IRRRL must be less than the principal and interest payment on the loan being refinanced unless one of the following exceptions applies: • the IRRRL is refinancing an ARM, • term of the IRRRL is shorter than the term of the loan being refinanced, or • energy efficiency improvements are included in the IRRRL. A significant increase in the veteran's monthly payment may occur with any of these three exceptions, especially if combined with one or more of the following: • financing of closing costs, • financing of up to two discount points, • financing of the funding fee, and/or • higher interest rate when an ARM is being refinanced. Continued on next page VA Pamphlet 26-7, Revised Chapter 6: Refinancing Loans 6-3 1. Interest Rate Reduction Refinancing Loans (IRRRLs), Continued c. Payment Decrease/ Increase Requirements (continued) If the monthly payment (PITI) increases by 20 percent or more, the lender must: • determine that the veteran qualifies for the new payment from an underwriting standpoint; such as, determine whether the borrower can support the proposed shelter expense and other recurring monthly obligations in light of income established as stable and reliable, and • include a certification that the veteran qualifies for the new monthly payment which exceeds the previous payment by 20 percent or more. d. Veteran's Statement and Lender's Certification For all IRRRLs, the veteran must sign a statement acknowledging the effect of the refinancing loan on the veteran's loan payments and interest rate. The statement must show the interest rate and monthly payments for the new loan versus that for the old loan. The statement must also indicate how long it would take to recoup ALL closing costs (both those included in the loan and those paid outside of closing). If the monthly payment (PITI) increases by 20 percent or more, the lender must include a certification that the veteran qualifies for the new monthly payment which exceeds the previous payment by 20 percent or more. Example: • Vet's monthly payment decreases by \$50.00. • Vet pays \$5,000 in closing costs (includes all costs – closing costs, funding fee, discounts, etc). • Recoup closing costs in 100 months - \$5,000 divided by \$50. Note: This would not be required in those limited cases where the payment is not decreasing (reduced term of loan, etc.). The veteran's statement may be combined with the lender's certification and should be on the

lender's own letterhead. For a sample please go to: http://www.homeloans.va.gov/docs/VA_Rate_Reduction_Cert.pdf. Continued on next page VA Pamphlet 26-7, Revised Chapter 6: Refinancing Loans 6-4 1. Interest Rate Reduction Refinancing Loans (IRRRLs), Continued e. What Closing Costs can be Included in the Loan? The following fees and charges may be included in an IRRRL: • the VA funding fee, and • any allowable fees and charges discussed in section 2 of chapter 8; such as, all allowable closing costs, including the lender's flat charge. However, There Is One Limitation While the borrower may pay any reasonable amount of discount points in cash, only up to two discount points can be included in the loan amount. Although VA does not require an appraisal or credit underwriting on IRRRLs, any customary and reasonable credit report or appraisal expense incurred by a lender to satisfy its lending requirements may be charged to the borrower and included in the loan. The lender may also set the interest rate on the new loan high enough to enable the lender to pay all closing costs, as long as the requirements for lower interest rate and payments (or one of the exceptions to those requirements) are met. For IRRRLs to refinance loans 30 days or more past due (which must be submitted for prior approval), the following can be included in the new loan: • late payments and late charges on the old loan, and • reasonable costs if legal action to terminate the old loan has commenced. f. When Can the Borrower Receive Cash at Closing? An IRRRL cannot be used to take equity out of the property or pay off debts, other than the VA loan being refinanced. Loan proceeds may only be applied to paying off the existing VA loan and to the costs of obtaining or closing the IRRRL. Therefore, the general rule is that the borrower cannot receive cash proceeds from the loan. If necessary, the refinancing loan amount must be rounded down to avoid payments of cash to the veteran. The one exception is reimbursement of the veteran for the cost of energy efficiency improvements up to \$6,000 completed within the 90 days immediately preceding the date of loan closing. Continued on next page VA Pamphlet 26-7, Revised Chapter 6: Refinancing Loans 6-5 1. Interest Rate Reduction Refinancing Loans (IRRRLs), Continued f. When Can the Borrower Receive Cash at Closing? (continued) Note: Use of loan proceeds for energy efficiency improvements not involving cash reimbursement of the veteran is also an option. See section 3 of chapter 7. In a limited number of situations, the borrower may receive cash at closing. Some examples of situations in which VA does not object to the borrower receiving cash are: • computational errors, • changes in final pay-off figures, • up-front fees paid for the appraisal and/or credit report that are later added into the loan, and • refund of the escrow balance on the old loan. This often occurs when a party other than the present holder originates the loan. VA does not set a "ceiling" or a specific dollar limitation on cash refunds resulting from adjustments at closing. However, if a situation involves a borrower receiving more than \$500, consult VA as to its acceptability. Lenders and VA personnel should exercise common sense when assessing such situations and draw from basic program information to know the difference between an equity withdrawal and cash from unforeseen circumstances. g. Maximum Loan Always use VA Form 26-8923, IRRRL Worksheet, to calculate the maximum loan amount. The maximum loan amount is the existing VA loan balances plus the following: • including any late payments* and late charges, plus • allowable fees and charges (includes up to two discount points), plus • the cost of any energy efficiency improvements, and • the VA funding fee. *Any IRRRL that includes delinquent payments in the loan amount must be submitted for prior approval, even when a lender has automatic authority. Continued on next page VA Pamphlet 26-7, Revised Chapter 6: Refinancing Loans 6-6 1. Interest Rate Reduction Refinancing Loans (IRRRLs), Continued g. Maximum Loan (continued) Note: There is no maximum dollar amount for VA loans. Since an IRRRL rolls the above items into the new loan, and VA guarantees at least 25

percent of the loan amount (without regard to the veteran's entitlement), the new loan amount may be more than the limits established by the secondary market. It is the lender's responsibility to ensure it has a marketable loan.

h. Amount of Guaranty and Entitlement Use No additional charge is made to the veteran's entitlement for an IRRRL; such as, the amount of the veteran's previously used and available entitlement remains the same before and after obtaining the IRRRL. The new IRRRL loan amount may be equal to, greater than, or less than, the original amount of the loan being refinanced. This may impact the amount of guaranty on the new loan, but not the veteran's use of entitlement.

Example Of New Loan Amount More Than Old Loan The existing VA loan was originally made for \$110,000 with a guaranty of \$27,500, or 25 percent. The new IRRRL is for \$112,000. The guaranty on the new loan is \$28,000 or 25 percent, but the veteran's entitlement use remains at \$27,500.

Example Of New Loan Amount Less Than Old Loan The existing VA loan was originally made for \$42,000 with a guaranty of \$25,000, or almost 60 percent (the percentage applicable under former law). The new IRRRL is for \$40,000. The guaranty on the new loan is \$20,000 or 50 percent, but the veteran's entitlement use remains at \$25,000.

Amount How to calculate the amount of guaranty on an IRRRL IRRRLs up to \$45,000 First, calculate the lesser of:

- 50 percent of the IRRRL loan amount, or
- the amount of guaranty used on the VA loan being refinanced.

The amount of guaranty is the greater of:

- the above result, or
- 25 percent of the IRRRL loan amount.

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1. Interest Rate Reduction Refinancing Loans (IRRRLs), Continued

h. Amount of Guaranty and Entitlement Use (continued)

Amount How to calculate the amount of guaranty on an IRRRL IRRRLs of \$45,001 to \$56,250 First, calculate the lesser of:

- \$22,500, or
- the amount of guaranty used on the VA loan being refinanced.

The amount of guaranty is the greater of:

- the above result, or
- 25 percent of the IRRRL loan amount.

IRRRLs of \$56,251 to \$144,000 First, calculate the lesser of:

- 40 percent of the IRRRL loan amount, or
- the amount of guaranty used on the VA loan being refinanced.

The amount of guaranty is the greater of:

- the above result, or
- 25 percent of the IRRRL loan amount.

IRRRLs greater than \$144,000 Guaranty on these is always 25 percent of the IRRRL loan amount.

i. Maximum Loan Term The maximum loan term is the original term of the VA loan being refinanced plus 10 years, but not to exceed 30 years and 32 days. For example, if the old loan was made with a 15-year term, the term of the new loan cannot exceed 25 years.

j. Title/Lien Requirements The IRRRL must replace the existing VA loan as the first lien on the same property. Any second lien-holder would have to agree to a subordinate to the first lien holder.

- The borrower cannot pay off liens other than the existing VA loan from IRRRL proceeds.
- The veteran (or surviving co-obligor spouse) must still own the property.

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1. Interest Rate Reduction Refinancing Loans (IRRRLs), Continued

k. Who Can an IRRRL be Made to? Generally, the party(ies) obligated on the original loan must be the same on the new loan (and the veteran must still own the property). The lender should contact VA regarding a proposed IRRRL involving a change in obligors unless the acceptability of the IRRRL is clear. Sample cases are provided in the table in this subsection. Examples: In Case 7, the divorced spouse is keeping the home and wishes to refinance. The spouse cannot get an IRRRL unless the veteran agrees to be obligated on the new loan and commit his or her entitlement to the new loan. A person without entitlement cannot get an IRRRL or any other type of VA loan. In Cases 8 through 10, the applicants cannot obtain an IRRRL because they do not include the veteran or a person who was the veteran's spouse at the time the original loan was made, and who was obligated on the loan along with the veteran. In the case of the unmarried veteran obtaining the original loan (Case 8):

- the marriage and death of the veteran occurred after the loan was made, and
- the

deceased veteran's spouse is not obligated on the original loan. Thus, an IRRRL is not possible. In the case of the veteran and spouse obligated on the original loan (Case 9): • the divorce, remarriage, then death of the veteran occurred after the loan was made and, the deceased veteran's new spouse is not obligated on the original loan. Thus, an IRRRL is not possible. Continued on next page VA Pamphlet 26-7, Revised Chapter 6: Refinancing Loans 6-9 1. Interest Rate Reduction Refinancing Loans (IRRRLs), Continued k. Who Can an IRRRL be Made to? (continued) In the case of the veteran/nonveteran joint loan (Case 10): • the veteran "sold out" to the nonveteran co-obligor after the loan was made and, • the veteran no longer has any ownership interest in the property. Thus, an IRRRL is not possible. Parties Obligated on Old VA Loan Parties to be Obligated on new IRRRL Is IRRRL Possible? 1 Unmarried veteran Veteran and new spouse Yes 2 Veteran and spouse Divorced veteran alone Yes 3 Veteran and spouse Veteran and different spouse Yes 4 Veteran alone Different veteran who has substituted entitlement Yes 5 Veteran and spouse Spouse alone (veteran died) Yes 6 Veteran and nonveteran joint loan obligors Veteran alone Yes 7 Veteran and spouse Divorced spouse alone No 8 Unmarried veteran Spouse alone (veteran died) No 9 Veteran and spouse Different spouse alone (veteran died) No 10 Veteran and nonveteran joint loan obligors Nonveteran alone No l. Underwriting of IRRRLs When Obligor(s) Have Changed Although VA does not require any credit/income documentation or re-underwriting of IRRRLs when there has been a change in obligors, lenders may want to consider the following: • Check mortgage payment record in lieu of obtaining a full credit report, unless required by investor. • For death or divorce cases, obtain a statement from the obligor(s) on the ability to make payments on the new loan without the co-obligor's income. • Obtain a statement about the addition of a different spouse, change in number of dependents, as applicable. Continued on next page VA Pamphlet 26-7, Revised Chapter 6: Refinancing Loans 6-10 1. Interest Rate Reduction Refinancing Loans (IRRRLs), Continued l. Underwriting of IRRRLs When Obligor(s) Have Changed (continued) The lender should satisfy itself that the lower payment and interest rate, and the minimum 25 percent guaranty compensate for no re-underwriting on the new loan when there has been a change in obligors. m. Occupancy For IRRRLs, the veteran or the spouse of an active servicemember must certify that he or she previously occupied the property as his or her home. This is different than the requirement for non-IRRRL VA loans that the veteran must intend to personally occupy the property as his or her home. Reference: See chapter 3 for details. n. VA Loan Identification Number Request a new loan number for each IRRRL through The Appraisal System (TAS), without requesting an appraisal. o. Credit Underwriting No credit information or underwriting is required unless: • the loan to be refinanced is 30 days or more past due (see section 2 of this chapter) or, • the monthly payment (PITI) will increase 20 percent or more. Reference: See subsection d of this section. A borrower with a recent Chapter 13 bankruptcy may need approval of the trustee for the new loan. p. Prior Approval Procedures An IRRRL can be closed on an automatic basis by any lender (such as, a lender with or without automatic authority to close other types of loans on an automatic basis) in any geographic location. Exception: For IRRRLs to refinance existing VA loans 30 days or more past due, VA prior approval is needed (see section 2, subsection a of this chapter). Continued on next page VA Pamphlet 26-7, Revised Chapter 6: Refinancing Loans 6-11 1. Interest Rate Reduction Refinancing Loans (IRRRLs), Continued p. Prior Approval Procedures (continued) A lender may choose to submit an IRRRL for prior approval, even if the existing loan is not 30 days or more past due. In such cases, submit only items 1 through 10 (and 17, if applicable) of the information listed under "Prior Approval Submission." Also include an explanation of why the loan is being submitted for prior approval. Submit documents on closed prior approval IRRRLs in accordance with the

instructions under section 2, subsection c of this chapter. Note: Prior approval for IRRRLs is not required for veteran's in receipt of nonservice-connected pension or for veterans rated incompetent by VA when these veterans meet the requirements of this section. q. Procedures for Automatic Processing of IRRRLs An IRRRL can be closed on an automatic basis by any lender (such as, a lender with or without automatic authority to close other types of loans on an automatic basis) in any geographic location. Exception: For IRRRLs to refinance existing VA loans 30 days or more past due, VA prior approval is needed. See section 2, subsection a, of this chapter. A loan must be reported (such as, all documentation submitted) to VA within 60 days of closing. A lender that fails to meet this time limit must provide a written explanation. (see document #12.) To report a loan, submit the following documents to VA in the order listed. Order Document 1 Lender's cover or transmittal letter (if used). 2 VA Form 26-0286, VA Loan Summary Sheet. 3 VA Form 26-8320 (or 26-8320a), Certificate of Eligibility, or a request for a duplicate certificate on VA Form 26-1880, Request for a Certificate of Eligibility. 4 Funding fee receipt. Reference: See section 8 of chapter 8 for information on exemptions. Continued on next page VA Pamphlet 26-7, Revised Chapter 6: Refinancing Loans 6-12 1. Interest Rate Reduction Refinancing Loans (IRRRLs), Continued q. Procedures for Automatic Processing of IRRRLs (continued) Order Document 5 Statement signed by the veteran acknowledging the effect of the refinancing loan on the veteran's loan payments and interest rate. • The statement must show the interest rate and monthly payments for the new loan versus that for the old loan. • The statement must also indicate how long it will take to recoup ALL closing costs (both those included in the loan and those paid outside of closing). • If applicable, the veteran's statement may be combined with the lender's certification that the veteran qualifies for the new monthly payment which exceeds the previous payment by 20% or more. 6 VA Form 26-8923, Interest Rate Reduction Refinancing Loan Worksheet. 7 VA Form 26-1820, Report and Certification of Loan Disbursement. 8 VA Form 26-8937, Verification of VA Benefits (if applicable). 9 HUD-1, settlement statement. 10 VA Form 26-0503, Federal Collection Policy Notice. 11 Lender's certification that the prior loan was current (not 30 days or more past due) at the time of loan closing. 12 If loan is submitted more than 60 days after loan closing, a statement signed by a corporate officer of the lender which identifies the loan, provides the specific reasons for late reporting and certifies that the loan is current. This statement must be submitted with any late request for issuance of a Loan Guaranty Certificate. 13 Documentation of the cost of energy efficiency improvements included in the loan. For cash reimbursement of the veteran, the improvements must have been completed within the 90 days immediately preceding the date of the loan. Reference: See section 3 of chapter 7. 14 Any other necessary documents (see section 6 of chapter 5). VA Pamphlet 26-7, Revised Chapter 6: Refinancing Loans 6-13

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