CHAPTER 6: REFINANCING LOANS

Overview

Topic 1: Interest Rate Reduction Refinancing Loans (IRRRLs)

Change Date: April 10, 2009

- 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.

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.

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Topic 1: Interest Rate Reduction Refinancing Loans (IRRRLs), continued

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: Sample VA Rate Reduction Certification.

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.

Limitation on closing costs that can be included:

- 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.

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Topic 1: Interest Rate Reduction Refinancing Loans (IRRRLs), continued

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.

Note: Use of loan proceeds for energy efficiency improvements not involving cash reimbursement of the Veteran is also an option. See 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.

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.

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Topic 1: Interest Rate Reduction Refinancing Loans (IRRRLs), continued

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.

Table 1: How to Calculate the Guaranty on an IRRRL by Loan Amount

Loan Amount	How to calculate the amount of guaranty on an IRRRL
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.
$45,001 - $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.
$56,251 - $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.
Greater than $144,000	Guaranty on these is always 25 percent of the IRRRL loan amount.

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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 lienholder would have to agree to a subordinate to the first lienholder.

- 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.

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.

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.

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Topic 1: Interest Rate Reduction Refinancing Loans (IRRRLs), continued

k. Who Can an IRRRL be Made to?, continued

Table 2: IRRRL Scenarios

Scenario	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 Obligors 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.

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.

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Topic 1: Interest Rate Reduction Refinancing Loans (IRRRLs), continued

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 Topic 2, subsection a of this chapter).

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 Topic 2, subsection c of this chapter.

Note: Prior approval for IRRRLs **is not required** for Veterans 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 Topic 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.

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Topic 1: Interest Rate Reduction Refinancing Loans (IRRRLs), continued

q. Procedures for Automatic Processing of IRRRLs, continued

Table 3: IRRRL Reporting Documentation Requirements

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.
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 include: • The interest rate and monthly payments for the new loan versus that for the old loan, and • 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 chapter 7
14	Any other necessary documents (see chapter 5).

Topic 2: IRRRL Made to Refinance a Delinquent Loan

Change Date: April 10, 2009

- This section has been changed to update hyperlinks and to make minor grammatical edits.

a. Prior Approval Submission

Any IRRRL made to refinance a loan that will be 30 days or more past due as of the date of closing, must be submitted for prior approval.

The lender must first obtain sufficient information and perform sufficient analysis to determine that:

- the cause of the delinquency has been resolved, and
- the Veteran is willing and able to make the proposed loan payments.

Submit a written proposal to VA which contains the following information:

Table 4: IRRRL Prior Approval Documentation

Order	Document
1	The full name of the Veteran and all other parties obligated on the prior loan and to be obligated on the new loan.
2	The VA loan number and month and year of origination of the loan to be refinanced.
3	The name and address of the lender proposing to make the loan.
4	The approximate proposed loan amount, interest rate, and term for the new loan versus the old loan.
5	Discount to be charged, expressed as a percentage of the loan and a dollar amount.
6	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).
7	The appropriate certification concerning occupancy signed by the Veteran or the spouse of an active duty servicemember. One of the following must be signed. • "I have previously occupied the property securing this loan as my home.", • "While my spouse was on active duty and unable to occupy the property securing this loan, I occupied the property securing this loan as my home."
8	VA Form 26-8923, *Interest Rate Reduction Refinancing Loan Worksheet.*
9	VA Form 26-8937, *Verification of VA Benefits* (if applicable).

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Topic 2: IRRRL Made to Refinance a Delinquent Loan, continued

a. Prior Approval Submission, continued

Table 4: IRRRL Prior Approval Documentation, continued

Order	Document
10	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*.
11	Uniform Residential Loan Application (URLA).
12	Explanation of the reason(s) for the loan delinquency, including appropriate documentation to verify the cause.
13	Documentation to verify that the cause of the delinquency has been corrected.
14	Credit report (in-file credit report is acceptable).
15	Current pay stub and telephone verification of current employment.
16	VA Form 26-6393, *Loan Analysis.*
17	Documentation of the cost of energy efficiency improvements to be included in the loan, if known. See Topic 3 of chapter 7. For cash reimbursement of the Veteran, the improvements must be completed within the 90 days immediately preceding the date of the loan.

b. What Happens Next?

VA will inform the lender of its decision.

The lender may close the loan in reliance on a VA-issued Certificate of Commitment.

Reference: See chapter 5 for further information on the Certificate of Commitment.

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Topic 2: IRRRL Made to Refinance a Delinquent Loan, continued

c. How to Report Loan Closing and Request Guaranty

A prior approval IRRRL 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 order #8).

To report an IRRRL, submit the following documents to VA in the order listed.

Table 5: IRRRL Closing Documentation

Order	Document
1	Lender's cover or transmittal letter (if used).
2	VA Form 26-0286, *VA Loan Summary Sheet*
3	Funding fee receipt. Reference: See chapter 8 for information on exemptions.
4	If the loan amount has increased beyond the amount indicated on the Certificate of Commitment, an updated VA Form 26-8923, Interest Rate Reduction Refinancing Loan Worksheet.
5	VA Form 26-1820, *Report and Certification of Loan Disbursement*
6	HUD-1, settlement statement.
7	VA Form 26-0503, *Federal Collection Policy Notice*
8	If loan is submitted mor than 60 days after loan closing, a statement signed by a corporate officer of the lender which identifies the loan and provides the specific reason(s) why the loan was not submitted on time.
9	Any other necessary documents (see section 6 of chapter 5).

d. Treatment of Late Payments and Late Charges

All late payments and late charges (and reasonable costs if legal action to terminate the old loan has commenced) can be rolled into the new loan.

If the amount of late payments, late charges and legal costs is significant, the proposed monthly payment will be adversely impacted. Carefully analyze whether the IRRRL would benefit the Veteran and not create unacceptable risk to the Government in light of the new monthly payment.

Topic 3: Cash-Out Refinancing Loans

Change Date: October 30, 2024

- This topic has been updated in its entirety.
- Public Law 115-174, *The Economic Growth, Regulatory Relief, and Consumer Protection Act*, set different requirements for cash-out refinancing loans based on the payoff amounts of the loan being refinanced. Therefore, VA has categorized cash-out refinancing loans as Type I and Type II. VA has promulgated regulations for cash-out refinancing loans at 38 C.F.R. § 36.4306.

a. What is a VA Cash-Out Refinancing Loan?

A VA cash-out refinancing loan is a refinance of any existing mortgage(s) and/or other indebtedness secured by a lien(s) of record. Refinancing loans made on properties without an existing mortgage or lien of record are **not** eligible for guarantee by VA. A cash-out refinance may also be made to refinance the following:

- an interim construction loan (a construction loan that does not provide for permanent financing), regardless of whether there is a change in the original loan amount,
- the balance of the purchase of land on which new construction is to be financed through the proceeds of the refinancing loan[1],
- the balance of an existing land sale contract relating to the Veteran's home or farm residence (see Chapter 7 for farm residence details)[2],
- a loan for the purchase of, and is secured by, a manufactured home in order to purchase the lot on which the manufactured home is or will be permanently affixed. (see Chapter 7 for manufactured home detail)[3], and
- a refinance of any other recorded lien against the property such as, but not limited to a mechanics lien, second mortgage, etc.[4]

There are two types of VA cash-out refinancing loans, Type I and Type II. The type of cash-out refinancing loan is determined by the payoff amount of the loan being refinanced compared to the principal amount of the new loan.

The lien to be paid off is not required to be in the Veteran's name. For instance, it could be in the spouse's name, provided at the time of the new loan closing the Veteran is an owner.

VA does not prescribe limitations for how the Veteran may use cash received from the refinancing loan. Loan proceeds beyond the amount needed to pay off the existing mortgage(s) and/or other lien(s) of record being refinanced may be taken as cash by the Veteran for any purpose. As such, VA does not require a letter of explanation detailing how the Veteran proposes to use the loan proceeds.

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[1] 38 U.S.C. § 3710(b)(7)
[2] 38 C.F.R. § 36.4306(f)
[3] 38 C.F.R. § 36.4306(g)
[4] 38 U.S. C. § 3710(a)(5), 38 C.F.R. 36.4301 "Lien"

Topic 3: Cash-Out Refinancing Loans, continued

b. What is a Type I Cash-Out Refinance Loan?

A Type I cash-out refinance is a refinancing loan in which the new loan amount (including the VA funding fee) does not exceed the payoff amount of the loan being refinanced[5]. A Type I cash-out refinance is distinct from an IRRRL on the basis that it may be a VA-guaranteed loan or a non-VA loan that is being paid off through the refinance.

c. What is a Type II Cash-Out Refinance Loan?

A Type II cash-out refinance is a refinancing loan in which the new loan amount (including the VA funding fee) exceeds the payoff amount of the loan and/or lien(s) of record being refinanced. In a Type II cash-out, the Veteran may remove equity from the subject property.

d. Lien Position Requirement

The refinancing loan must be secured by first lien position on the property. All other lien holders must agree to subordinate to the VA refinancing loan. Copies of any subordination agreements must be included in the loan file for VA audit review.[6]

e. Ownership Requirement

The Veteran must have ownership/title of the property securing the loan before, or at the time of closing. There is not a required length of time that the Veteran must have been on title prior to loan closing.

f. Maximum Loan Term

The maximum loan term of the refinancing loan may not exceed the lesser of:

- 30-years and 32-days[7], or
- The economic life of the property securing the loan[8].

g. Maximum Loan Amount

The maximum loan amount may not exceed 100 percent of the reasonable value[9] (as determined by VA) of the property securing the loan. The inclusion of energy efficiency improvements up to $6,000[10] and/or the VA funding fee, in part or whole, must not cause the loan to exceed 100 percent of the reasonable value.

For Type I refinances: If the loan being refinanced has a fixed interest rate and the Type I cash-out refinancing loan will have an adjustable interest rate **and** more than one discount point is charged, the loan-to-value ratio (LTV) is limited to 90 percent of the reasonable value[11]. See chapter 3 for additional information on maximum loan amounts.

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[5] 38 U.S. Code § 3709(d)(1)
[6] 38 U.S.C. § 3703(d)(3)
[7] 38 U.S.C. § 3703 (d)(1)
[8] 38 CFR § 36.4310(c)
[9] 38 U.S.C. § 3710(b)(7))
[10] 38 U.S.C. § 3710(d)(2)
[11] 38 CFR 36.4306(b)(4)(ii)

Topic 3: Cash-Out Refinancing Loans, continued

h. Maximum Guaranty

For Veterans with full entitlement, the maximum amount of guaranty entitlement available to the Veteran, for a loan amount above $144,000 is 25 percent of the loan amount[12].

For Veterans with partial entitlement, the maximum guaranty will be based on the total loan amount, the amount of entitlement available to the Veteran, and the one-unit Freddie Mac Conforming Loan Limit[13] if the Veteran has partial entitlement (see Chapter 3 for additional information on calculating the maximum guaranty).

i. Veteran's Entitlement

The Veteran must have entitlement available for the loan (see Chapter 3 for examples on calculating remaining entitlement for Veterans with partial entitlement).

If the loan being refinanced is a VA-guaranteed loan, or if the Veteran has unrestored entitlement for a previous VA-guaranteed loan on the subject property, the entitlement charged to that VA-guaranteed loan may be restored for purposes of obtaining the refinancing loan. Except in cases where the Veteran has obtained a one-time restoration, which is addressed in the next paragraph.

If the Veteran obtained a one-time restoration, all properties obtained using the Veteran's entitlement must be disposed of prior to the cash-out refinance. That is, the property with the one-time restoration applied and all other properties obtained with a VA loan must be satisfied and sold for any restoration to occur, including a cash-out restoration. In these cases, if the Veteran has not sold all of the properties, they may still obtain a cash-out refinance loan; however, the amount of entitlement will be limited to the amount remaining without restoration. This **includes** instances where the Veteran is obtaining a cash-out refinance on the property obtained with the one-time restoration[14].

Transfer of the property on which a one-time restoration was applied to a spouse (to whom the Veteran is still married) or to a Limited Liability Corporation where the Veteran is a member (owner), does not meet the sale requirement for restoration.

An Energy Efficient Mortgage (EEM) may be added to any cash-out loan provided it meets the program requirements without regards to entitlement availability. The EEM portion of the loan does not increase the entitlement charged to the Veteran[15].

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[12] 38 USC § 3703(a)(1)(A)(i)(IV)
[13] 38 U.S. C. § 3703(a)(1)(C)(ii)
[14] 38 U.S.C. § 3702(b)(1)
[15] 38 U.S.C. § 3710(d), 38 C.F.R. 36.4302(c)

j. Underwriting

Full credit underwriting is required for all cash-out refinancing loan types. The underwriter must follow VA credit underwriting guidelines to ensure all borrowers are a satisfactory credit risk and have stable/reliable income for the repayment of the loan[16] (see Chapter 4 for VA credit underwriting guidelines).

Only lenders granted VA automatic authority by VA may close cash-out refinancing loans automatically. Lenders without VA automatic authority may close loans through the use of an agent-sponsor relationship or submit the loan to VA for underwriting and approval prior to loan closing[17] (see Chapter 5 for information on how to submit a request for prior approval).

For non-supervised lenders with automatic authority, only VA-approved credit underwriters may make credit-underwriting decision on VA loans. The lender must certify[18] that all underwriting decisions to approve or deny a VA loan will be made by a VA-approved underwriter. The name of the VA-approved underwriter and their underwriter ID must be provided on VA Forms 26-6393, *Loan Analysis,* and 26-1820*, Report and Certification of Loan Disbursement*.

k. Occupancy Requirement

The Veteran must meet the occupancy requirement outlined in Chapter 3.[19]

l. Fees and Charges

Refer to Chapter 8 for information on permissible fees and charges. Closing costs, including the VA funding fee, may be paid from loan proceeds but the loan amount may not exceed the maximum loan amount outlined in section g.

Note: For Type I cash-out refinances that result in an increased principal and interest payment, the lender may not charge the Veteran loan fees, closing costs, or expenses other than taxes, amounts held in escrow, and the VA funding fee.

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[16] 38 C.F.R. § 36.4340, 38 U.S.C. § 3710(b)(3)
[17] 38 U.S.C. § 3702(d)(1)
[18] 38 C.F.R. § 363.4352(b)(3)
[19] 38 U.S.C. § 3704(c)

Topic 3: Cash-Out Refinancing Loans, continued

m. Fee Recoupment Requirement (VA-to-VA, Type I only)[20]

Fee recoupment is the length of time it will take the Veteran to recoup certain costs necessitated by the refinance. The fee recoupment period of certain loan fees, expenses, and closing costs must not exceed 36 months. This requirement applies to Type I cash-out refinancing loans[21,] regardless of the interest rate and/or loan term of the new loan.

Fee Recoupment Calculation

The fee recoupment period is computed by dividing allowable loan fees, expenses, and closing costs, whether included in the loan amount or paid outside of closing, by the reduction of the monthly principal and interest (PI) payment. The fee recoupment period is not rounded.

Example: Acceptable Fee Recoupment

Description	Amount
Allowable loan fees/expenses/closing cost	$3,250
Divided by the Monthly PI payment reduction	÷ $200
Fee Recoupment Period =	16.25 months

Example: Unacceptable Fee Recoupment

Description	Amount
Allowable loan fees/expenses/closing cost	$3,250
Divided by the Monthly PI payment reduction	÷ $90
Fee Recoupment Period =	36.1 months

The VA Funding Fee, escrow, and prepaid expenses, such as insurance, taxes (including Mello-Roos), special assessments, and homeowner's association (HOA) fees, may be excluded from the calculations to meet the recoupment requirement. Lender credits and premium pricing may be used to offset allowable fees and charges. However, temporary buydown accounts and escrow accounts created to subsidize payments through an above market interest rate, or a combination of discount points and above market interest rate, are prohibited by VA. For VA purposes, such accounts are considered cash-advance on principal.

If the monthly PI payment changed due to a loan modification or ARM, the monthly PI payment reduction should be computed based on the PI payment at the time of the closing of the new refinancing loan. The monthly PI payment should only include the VA-guaranteed loan even if the refinance is made to consolidate multiple mortgages on the property securing the loan.

Note: If the monthly PI payment is not reduced as a result of the refinance, the lender may not charge the Veteran loan fees, closing costs, or expenses other than taxes, amounts held in escrow, and the VA funding fee. Lender credits may be subtracted from the charges made to the Veteran.

Continued on next page

[20] 38 C.F.R. §36.4306(b)(1)
[21] 38 CFR § 36.4306(b)(1)

Topic 3: Cash-Out Refinancing Loans, continued

m. Fee Recoupment Requirement (VA-to-VA, Type I only), continued

Lender's Certification

The lender must ensure and certify to VA that the fee recoupment period does not exceed 36 months from the first payment due date. The lender must make the certification before or upon requesting the VA Loan Guaranty Certificate (LGC).

n. Requirement to Reduce the Interest Rate (VA-to-VA, Type I only)

All cash-out refinancing loans must meet a net tangible benefit requirement as discussed in section o of this chapter. Additionally, if the loan is a Type I cash-out refinance made to refinance a fixed-rate loan, the new loan must have a lower interest rate as specified below.

Note for modified loans: If the interest rate on the VA-guaranteed loan being refinanced has changed due to a loan modification, the Type I cash-out refinance interest rate must be reduced based on the modified interest rate, appropriately.

Fixed – Fixed[22]:

If the existing VA-guaranteed loan being refinanced has a fixed interest rate and the Type I cash-out refinance will have a fixed interest rate, the interest rate of the cash-out refinance must be at least 0.5 percent (50 basis points) lower than the interest rate on the existing VA-guaranteed loan being refinanced.

Example 1: Fixed to Fixed

If the interest rate of the existing VA-guaranteed loan being refinanced is 3.75 percent (fixed), then the interest rate of the Type I cash-out refinance may not be greater than 3.25 percent (fixed).

Example 2: Fixed to Fixed

If the interest rate of the existing loan was modified from 3.5 percent (fixed) to 7.0 percent (fixed), then the interest rate of the Type I cash-out refinance may not be greater than 6.5 percent (fixed).

Fixed – ARM (or Hybrid ARM (h-ARM))[23]:

If the existing VA-guaranteed loan being refinanced has a fixed interest rate and the Type I cash-out refinancing loan will have an adjustable interest rate, the interest rate of the cash-out refinancing loan must be at least 2 percent (200 basis points) lower than the interest rate on the VA-guaranteed loan being refinanced. (fixed-to-ARM).

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[22] 38 C.F.R. § 36.4306(b)(3)
[23] 38 C.F.R. § 36.4306(b)(4)

Topic 3: Cash-Out Refinancing Loans, continued

n. Requirement to Reduce the Interest Rate (VA-to-VA, Type I only), continued

Example: Fixed to ARM

If the interest rate of the VA-guaranteed loan being refinanced is 3.75 percent (fixed), then the initial interest rate of the Type I cash-out refinance may not be greater than 1.75 percent (adjustable).

Note: The lower interest rate of the Type I cash-out refinancing loan may not result solely from discount points. When discount points greater than one discount point are included in the loan amount, the LTV ratio of the Type I refinancing loan (fixed-to-ARM) may not exceed of 90 percent of the reasonable value of the property.

ARM (or h-ARM)[24] – Fixed:

If the VA-guaranteed loan being refinanced has an ARM and the Type I cash-out refinancing loan will have a fixed rate, there is not a requirement to reduce the interest rate. Therefore, the interest rate may increase on these transactions.

o. Net Tangible Benefit (NTB) Requirement[25] (Type I & Type II)

The lender must provide the Veteran a NTB test demonstrating how the Veteran will benefit from the refinance. A loan that provides a NTB means that it is in the financial interest of the Veteran. Each cash-out refinancing loan must provide at least one NTB to the Veteran:

- If the loan being refinanced has been modified, the modified terms should be used to evaluate the NTB.
- If the loan being refinanced is an ARM, the interest rate and PI payment at the time of the new loan closing should be used to evaluate the NTB.
- If the loan being refinanced has a temporary buydown, the note interest rate and full PI payment should be used to evaluate the NTB.

<u>The NTB requirement is met if the loan satisfies at least one of the following:</u>

- The refinance will eliminate monthly mortgage insurance, this includes the elimination of the United States Department of Agriculture Rural Development annual fee, (current mortgage statement or other document reflecting monthly mortgage insurance is required), or
- The loan term of the new refinancing loan is less than the loan term of the loan being refinanced (the note or other document reflecting the current loan term is required), or
- The interest rate of the new refinancing loan is less than the interest rate of the loan being refinanced (the note or other document reflecting the current loan term is required); or
- The new refinancing LTV ratio is equal to or less than 90 percent of the reasonable value of the home; or

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[24] 38 U.S.C. § 3710(e)(1)(A)
[25] 38 C.F.R. § 36.4306(a)(3)

o. Net Tangible Benefit (NTB) Requirement[26] (Type I & Type II), continued

- The monthly principal and interest (PI) payment of the new refinancing loan is less than the monthly PI payment of the loan being refinanced. If the monthly PI payment changed due to a loan modification or adjustable-rate mortgage, the monthly PI payment reduction should be computed based on the current monthly PI payment. The monthly PI payment should only include the first lien mortgage even if the refinance is made to consolidate multiple mortgages on the property securing the loan; or
- The Veteran's monthly residual income is higher as a result of the new refinancing loan. If this NTB is utilized, the lender should compare the residual income based on the proposed loan terms with the residual income that would exist if the refinance was not completed.
- The refinancing of an interim loan to construct, alter, or repair the Veteran's primary home (interim loans to construct do not include one-time construction to permanent loans that provided for permanent financing); or
- The Veteran's monthly residual income is higher as a result of the new refinancing loan. If this NTB is utilized, the lender should compare the residual income based on the proposed loan terms with the residual income that would exist if the refinance was not completed.

  Example of Residual Income Calculation:

Factor	Without-Refinance	After-Refinance
Net Income*	$5,750	$5,750
Debts (-)	($1,630)	($1,630)
Mortgage Payment** (-)	($2,320)	($2,100)
Residual Income	$1,800	$2,020

  * Net income is gross income net of applicable deductions. (Line 39 on VA Form 26-6393, Loan Analysis)

  **Monthly principal, interest, taxes, insurance, and mortgage insurance, if applicable

  Note: If the monthly PI payment is scheduled to change on the loan being refinanced, due to an ARM, on or before the closing date of the proposed refinance transaction, the adjusted PI amount for the loan being refinanced must be used to determine the pre-refinance residual income.

- Refinance of an ARM (including h-ARM) to a fixed-rate mortgage (ARM-to-fixed) (the note or other document reflecting the amortization type is required).
  Note: Loans with a temporary interest buydown are not treated as ARMs for the purpose of this NTB.

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[26] 38 C.F.R. § 36.4306(a)(3)

Topic 3: Cash-Out Refinancing Loans, continued

p. Loan Seasoning Requirement (VA-to-VA only)

Loan seasoning refers to the age of the existing VA-guaranteed loan being refinanced. It applies to all cash-out refinancing loan types made to refinance a VA-guaranteed loan (VA-to-VA). For VA purposes, the loan seasoning requirement does not apply to cash-out refinancing loans made to refinance non-VA guaranteed loans and/or other indebtedness secured by liens of record.

For existing VA-guaranteed loans refinanced within 1-year from the date of closing, lenders must obtain and include in the loan file a payment history/ledger documenting all payments, or a credit bureau supplement clearly identifying all payments made on the existing VA-guaranteed loan being refinanced.

Lender's Certification

The lender must certify when requesting the VA LGC that six or more consecutive payments have been made on the VA-guaranteed loan being refinanced.

Type I Seasoning[27]

The VA-guaranteed loan being refinanced must be seasoned on or before the note date of the new loan. The loan is considered seasoned when both conditions below are met:

- the **first monthly payment due date** of the VA-guaranteed loan being refinanced is 210 days or more prior to the note date of the Type I cash-out refinancing loan; and
- six consecutive (uninterrupted) monthly payments have been made on the VA-guaranteed loan being refinanced.

To meet the six consecutive monthly payment requirement, six individual monthly payments must be made, in full, in the month in which it is due, in each of six successive months. Once the loan is seasoned, it does not need to be re-seasoned after a subsequent delinquency.

Example 1: Type I Seasoning – 210 days

The VA-guaranteed loan being refinanced closed on March 8, 2023. The first payment was due May 1, 2023. If six consecutive monthly payments have been made on the loan, the loan is considered seasoned on November 27, 2023.

Example 2: Type I Seasoning – 6 consecutive payments

The VA-guaranteed loan being refinanced closed on March 8, 2023. The first payment was due May 1, 2023. The Veteran made arrangements to pay the mortgage by submitting payments on a quarterly basis. The servicer applied the payments on a monthly basis. Even if the payments are applied in each of six simultaneous months, the Veteran does not meet the consecutive monthly payment requirement since the payments were made quarterly and not monthly.

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[27] 38 U.S.C. § 3709(c)

Topic 3: Cash-Out Refinancing Loans, continued

p. Loan Seasoning Requirements (VA-to-VA only), continued

Example 3: Type I Seasoning – 6 consecutive payments

The VA-guaranteed loan being refinanced closed on March 8, 2023. The first payment was due May 1, 2023. The Veteran made the May and June payments in the respective month, then missed the July payment. In August, the Veteran made both the July and August payments. The Veteran then paid the September and October payments in the respective month. Although six payments have been made, and the loan is current, the loan does not meet the seasoning requirements since six payments were not submitted in six consecutive months.

Type II Seasoning[28]

The VA-guaranteed loan being refinanced must be seasoned on or before the note date of the new loan. The loan is considered seasoned when both conditions below are met:

- the date the **first monthly payment was made** on the VA-guaranteed loan being refinanced is 210 days or more prior to the closing date of the Type II cash-out refinancing loan; and
- six monthly payments have been made on the VA-guaranteed loan being refinanced (the payments do not need to be consecutive).

Example: Type II Seasoning

The VA-guaranteed loan being refinanced closed on March 8, 2023. The first payment was made May 7, 2023. If six monthly payments have been made on the loan, the loan is considered seasoned on December 3, 2023.

q. Loan Comparison Disclosure Requirement

The lender must provide an initial and final loan comparison disclosure to the Veteran[29]. The Veteran must certify receipt of both disclosures (i.e. signature, e-signature, email from the Veteran certifying receipt, email read receipts, system time/date stamp where the Veteran certified receipt, etc.). The loan comparison statements must be provided to VA at the time the lender requests the LGC from VA.

For the purpose of completing the loan comparison disclosures, the lender should use the current terms of the loan. For example, if the existing loan was modified, the current terms of the modified loan should be reflected on the loan comparison disclosures.

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[28] 38 C.F.R. § 36.4306(c)(2)
[29] 38 C.F.R. §§ 36.4306(a)(3)(ii)-(iv)

Topic 3: Cash-Out Refinancing Loans, continued

q. Loan Comparison Disclosure Requirement, continued

Both loan comparison disclosures must include the following comparisons of the loan(s) and/or lien(s) being refinanced to the cash-out refinancing loan:

- Payoff amount of exiting mortgage(s) and/or lien(s) being refinanced vs. refinancing loan amount,
- Current interest rate vs. refinancing loan interest rate,
- Current loan type (i.e., fixed, adjustable) vs. refinancing loan type,
- Remaining loan term of the existing mortgage(s) and/or lien(s) being refinanced vs. the refinancing loan term,
- Total the Veteran would have paid after making all scheduled monthly principal, interest, and mortgage insurance (if applicable) payments on the exiting mortgage(s) and/or lien(s) being refinanced vs. total the Veteran will pay after making all scheduled monthly principal and interest payments on the refinancing loan, and
- Present combined LTV of the existing mortgage(s) and/or lien(s) being refinanced vs. LTV of the refinancing loan.

Initial Loan Comparison Disclosure

This disclosure must be provided to the Veteran within three (3) business days from the initial loan application date. Reasonable estimates may be obtained from documents, such as, monthly mortgage statements, closing documents, online property valuation tools, and manual calculations. The terms on the initial loan comparison disclosure should match the loan estimate disclosed at the time of loan application. Although the lender must provide the initial loan comparison to the Veteran within 3 business days from the initial loan application date, the Veteran may certify receipt of the disclosure at any time.

Lenders are encouraged to continually update the comparison disclosure as additional, and/or accurate information becomes available throughout the origination process. These updates should be done in the same manner they would for re-issuance of the loan estimate.

Example: Initial Loan Comparison Disclosure Timing

The Veteran completed/submitted the loan application to the lender on August 5, 2023. The lender must provide the initial comparison disclosure to the Veteran no later than August 8, 2023. The Veteran must certify no later than the date of closing that they received the initial comparison disclosure on or before August 8, 2023.

Final Loan Comparison Disclosure

This disclosure must be provided to the Veteran at loan closing. The final comparison disclosure must provide an accurate comparison of the loan/lien(s) being refinanced to the cash-out refinancing loan. The Veteran must certify receipt of the disclosure at loan closing.

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r. Home Equity Disclosure Requirements

The lender must provide a home equity disclosure[30] to the Veteran within 3 business days from the initial application date and at loan closing. The home equity disclosure must disclose the amount of home equity being removed from the home as a result of the refinance and explain how the removal of the home equity may affect the sale or refinance of the home in the future. This may be incorporated into the loan comparison disclosure.

VA defines home equity as the difference between the reasonable value of the home and the amount needed to **pay off all liens** of record secured by the property.

Example: Home Equity Disclosure

The reasonable value of the home is $250,000. The refinancing loan of $250,000 will be used to pay off the first mortgage $200,000, second mortgage $25,000, and a property tax lien $8,000. There are no other liens of record secured by the property.

Item	Description	Present	Proposed
A	Reasonable Value (NOV)	$250,000	$250,000
B	First Mortgage (-)	$200,000	$250,000
C	Other Recorded Liens (-)	$33,000	$0
D	Home Equity (A – B – C = D)	$17,000	$0

In this example, $17,000 of home equity is removed from the home as a result of the refinancing loan.

Home Equity Removed = Proposed Home Equity – Present Home Equity = $0 - $17,000 = ($17,000)

The Veteran must certify receipt of both disclosures (i.e. signature, e-signature, email from the Veteran certifying receipt, email read receipts, system time/date stamp where the Veteran certified receipt, etc.).

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[30] 38 C.F.R. § 36.4306(a)(3)(iii)

Topic 3: Cash-Out Refinancing Loans, continued

s. Cash-Out Refinancing Comparison Matrix

Definitions for Type I and Type II Cash-Out Refinancing Loans are provided in sections a and b of this topic.

Table 6: Cash-Out Refinancing Comparison

Item	Type I: VA-to-VA	Type I: Non-VA-to-VA	Type II: VA-to-VA	Type II: Non-VA-to- VA
Loan amount can exceed payoff (including funding fee). (Section b and c)	No	No	Yes	Yes
Veteran can remove equity from the property. (Section b and c)	No	No	Yes	Yes
Fee recoupment requirement. (Section m)	Yes	No	No	No
Requirement to reduce the interest rate. (Section n)	Yes	No	No	No
Discount point restrictions. (Section n)	Yes	No	No	No
Net Tangible Benefit (NTB) requirement. (Section o)	Yes	Yes	Yes	Yes
Loan seasoning. (Section p)	Yes	No	Yes	No
Initial and final loan comparison disclosures. (Section q)	Yes	Yes	Yes	Yes
Home equity disclosure. (Section r)	Yes	Yes	Yes	Yes

Topic 4: Quick Reference Table for IRRRLs Versus Cash-Out Refinancing Loans

Change Date: April 10, 2009

- This section has been updated to remove references to a 90 percent limit and a maximum guaranty on refinancing loans, and to make minor grammatical edits.

a. Table IRRRL versus Cash-out

The following table provides a quick reference for IRRRL loans versus cash- out refinancing loans:

Table 7: IRRRL versus Cash-out Comparison

Feature	IRRRL	Cash-out Refinancing
Purpose	To refinance an existing VA loan at a lower interest rate	To pay off lien(s) of any type - can also provide cash to borrower
Interest Rate	Rate must be lower than on existing VA loan (unless existing loan is an ARM)	Any negotiated rate
Monthly Payment Amount	Payment must be lower than that on an existing VA loan (unless the ARM is being refinanced, a term is shortened, or energy efficiency improvements are being included)	No requirement
Discount Points	Reasonable points can be paid - only two of these points can be included in the loan amount	Reasonable points can be paid - if paid from loan proceeds
Maximum Loan	Existing VA loan balance, plus allowable fees and charges, plus up to two discount points, plus the cost of any energy efficiency improvements, plus the VA funding fee	100 percent of the reasonable value of the property indicated on the NOV, plus the cost of any energy efficiency improvements, plus the VA funding fee
Maximum Guaranty	Guaranty is at least 25 percent in all cases (See Topic 1, subsection h of this chapter)	Maximum guaranty is the same as for purchases
Entitlement	Veteran re-uses the entitlement used on the existing VA loan - the IRRRL does **not** impact the amount of entitlement the Veteran has in use	Must have sufficient available entitlement - if existing VA loan on the same property is being refinanced, entitlement can be restored for the refinance

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Topic 3: Quick Reference Table for IRRRLs Versus Cash-Out Refinancing Loans, continued

a. Table IRRRL versus Cash-out, continued

Table 7: IRRRL versus Cash-out Comparison, continued

Feature	**IRRRL**	**Cash-out Refinancing**
Fees and Charges in the Loan	All allowable fees and charges, including up to two discount points, may be included in the loan	Allowable fees and charges and points may be paid from the loan proceeds
Cash to Borrower	Not permitted	Borrower can receive cash for any purposes acceptable to the lender
Lien/Owner-ship	Must be secured by first lien - Veteran must own property	Must be secured by first lien - Veteran must own property
Refinance of Other Liens	Cannot refinance other liens - can only refinance the existing VA loan	Can refinance any type of lien(s)
Maximum Loan Term	Existing VA loan term plus 10 years, not to exceed 30 years + 32 days	30 years + 32 days
Occupancy	Veteran or spouse of an active duty servicemember must certify to prior occupancy	Veteran or spouse of an active duty servicemember must certify as to intent to occupy
Appraisal	No appraisal is required	Appraisal is required
Credit Underwriting	No underwriting is required except in certain cases	Full credit information and underwriting are always required
Automatic Authority	All lenders can close IRRRLs automatically, except if the loan being refinanced loan is 30 days or more past due, prior approval is always required	Only lenders with automatic authority can close these loans automatically
Law	38 U.S.C. 3710(a)(8)	38 U.S.C. 3710(a)(5)

Topic 5: Other Refinancing Loans

Change Date: April 10, 2009

- Subsection c has been updated to note that maximum guaranty on these types of refinancing loans is limited to $36,000.

- This section has been updated to make minor grammatical edits.

a. What Are They?

Other refinancing loans are:

- construction loans,
- installment land sale contracts, and
- loans assumed by Veterans at interest rates higher than that for the proposed refinance.

b. Maximum Loan

These loans may not exceed the lesser of:

- the VA reasonable value plus the VA funding fee, or
- the sum of the outstanding balance of the loan to be refinanced plus allowable closing costs (including the funding fee) and discounts.

The cost of energy efficiency improvements can also be added to the loan.

c. Maximum Guaranty

The maximum guaranty for refinancing loans, noted in subsection a, is $36,000.