



# Veterans Benefits Administration

## Loan Guaranty Service

## Cash-Out Refinance Interim Rule Briefing

Briefed by:

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# Our Mission

The VA Home Loan Guaranty program assists eligible Veterans, active duty personnel, surviving spouses, and members of the Reserves and National Guard **obtain, retain, and adapt** homes, by providing a viable and fiscally responsible benefit program in recognition of their service to the Nation.



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# Briefing Objectives

To provide lenders with:

- Background behind VA's new cash-out refinance rule
- A review of new requirements for VA cash-out refinancing loans
- Next steps for VA and lenders



# Background

On May 24, 2018, the President signed into law *The Economic Growth, Regulatory Relief, and Consumer Protection Act*, Public Law 115-174, 132 Stat. 1296.

Section 309 of this law seeks to protect Veterans from predatory lending practices when refinancing home loans and ensure the loans are in Veterans' financial interests.



# VA's Cash-Out Refinance Rule

On December 17, 2018, VA published an Interim Final Rule addressing VA guaranty requirements for cash-out refinance loans (83 FR 64459).

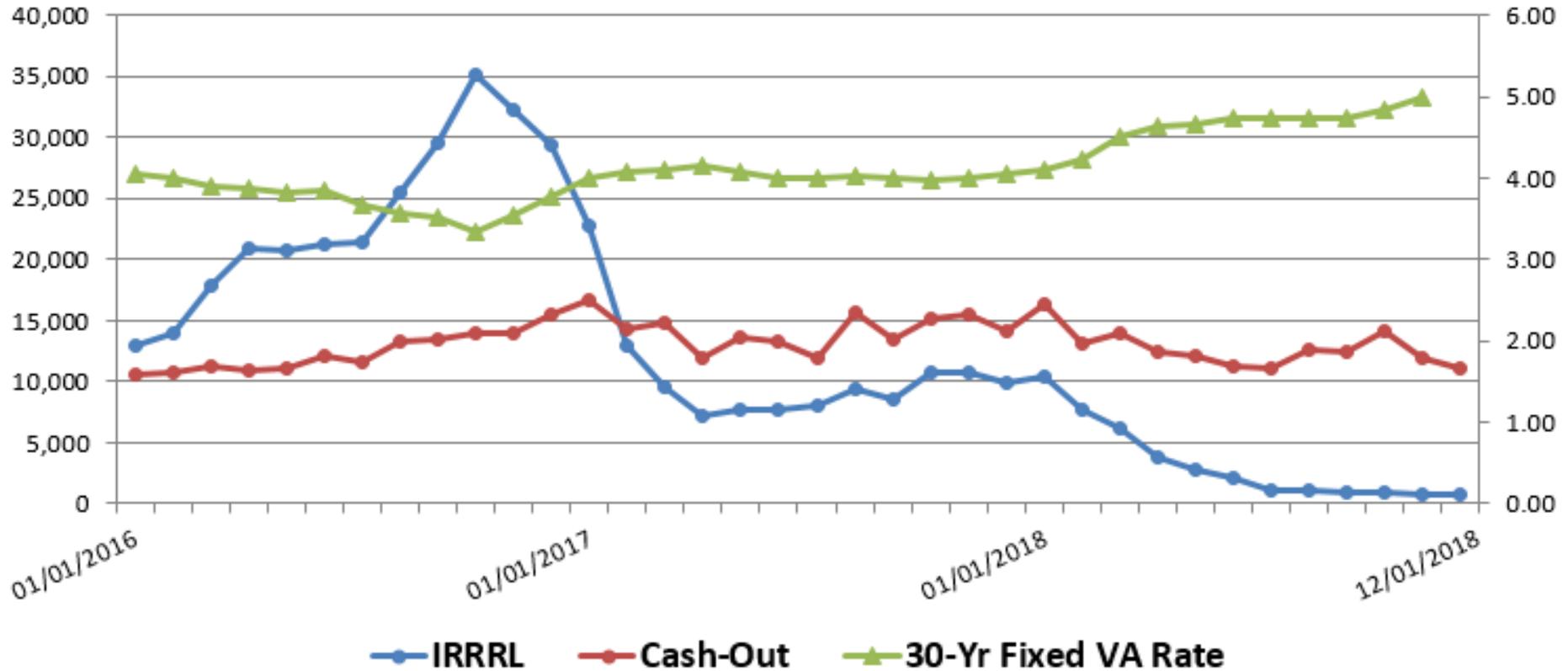
- The rule is effective on February 15, 2019
- Public comment period open through February 15, 2019

This rule implements section 309 for VA cash-out refinance loans. *A future* rulemaking will address interest rate reduction refinance loans (IRRRLs).



# VA Refinance Loan Volume, 2016-2018

## Monthly Loan Origination Detail



Sources: VA Internal Loan Data and Ellie Mae Origination Insight Reports

# VA Cash-Out Refinance Goals

- Ensure Veterans continue to have access to responsible credit options for refinancing
- Provide Veterans with sufficient information regarding the impact of a refinance loan on their current and future financial position



# VA Cash-Out Refinance Loan Types

Two types of cash-out refinancing loans:

- **TYPE I:** A refinancing loan in which the loan amount does not exceed the payoff amount of the loan being refinanced.
- **TYPE II:** A refinancing loan in which the loan amount exceeds the payoff amount of the loan being refinanced.



# NEW Cash-Out Requirements

Cash-out refinancing loan applications taken on or after February 15, 2019, must meet the following additional requirements:

- ✓ Loan-to-Value (LTV)
- ✓ Net Tangible Benefit (NTB)
- ✓ Comparison Disclosure
- ✓ Loan Seasoning



# Cash-Out Requirements by Loan Type

Type I Cash-Outs		Type II Cash-Outs	
VA→VA	Non-VA→VA	VA→VA	Non-VA→VA
<ul style="list-style-type: none"> <li>✓ New Loan (including all financed fees and charges) ≤ 100% LTV</li> <li>✓ Loan demonstrates at least 1 of 8 Net Tangible Benefits</li> <li>✓ Lender provides comparison disclosure at application and closing</li> </ul>			
✓ Loan Seasoning		✓ Loan Seasoning	
✓ Fee Recoupment			
✓ Interest Rate Requirements (if existing loan is fixed rate)			



# Loan-to-Value (LTV)

The LTV ratio of the refinancing loan may not exceed 100 percent of the reasonable value of the property.



## LTV Calculation:

$$\begin{array}{r} \text{loan amount} \\ \div \\ \text{property value} \end{array} = \text{LTV}$$



# Net Tangible Benefit (NTB)

*All cash-out refinancing loans must satisfy at least one of the following:*

- Eliminate monthly mortgage insurance
- Decrease the loan term
- Decrease monthly (P&I) payments
- Reduce the interest rate



# Net Tangible Benefit (NTB), Continued

- Maintain LTV equal to or less than 90%
- Refinance an interim construction loan
- Increase monthly residual income
- Refinance from an adjustable-rate loan to a fixed-rate loan



# Comparison Disclosure Elements

*Lenders must provide the following information for the existing and new loan for all cash-out refinancing loans:*

- Loan amount vs. payoff amount
- Loan type
- Interest rate
- Loan term
- Total amount the Veteran will have paid after making all payments as scheduled
- LTV
- Home equity being removed from property



# Comparison Disclosure Timing

- Lenders must provide the comparison disclosure to the Veteran within three business days from the date of the loan application and at loan closing.
- The Veteran must sign and/or acknowledge receipt of both disclosures.



# Loan Seasoning

A loan is considered seasoned on the later date of:

- ✓ 210 days after the first monthly payment is made, and
- ✓ Six monthly payments have been made on the loan



**Loan seasoning applies to TYPE I and TYPE II refinancing loans made to refinance a VA-guaranteed home loan.**

# TYPE I Interest Rate Requirements

These requirements apply to TYPE I refinancing loans made to refinance a VA-guaranteed home loan, in which the loan being refinanced has a fixed interest rate.

**FIXED Rate-to-FIXED Rate:** The interest rate of the refinancing loan may not be less than 0.5 percent (50 basis points) of the interest rate on the loan being refinanced.



# TYPE I Interest Rate Requirements, (Cont.)

**FIXED Rate-to-ADJUSTABLE Rate:** The interest rate of the refinancing loan may not be less than 2 percent (200 basis points) of the interest rate on the loan being refinanced

- Discount Points > 1%: If discount points are included in the refinancing loan amount, the loan amount may not exceed an LTV of 90 percent.
- Discount Points ≤ 1%: If discount points are included in the refinancing loan amount, the loan amount may not exceed an LTV of 100 percent.



# Fee Recoupment

- Recoupment of all fees, expenses, and closing costs included in the loan amount and paid outside of closing must be recouped through lower principal and interest (P&I) payments within 36 months from the date of closing.
- The lender must certify to VA that the fee recoupment requirement is met.

**Fee recoupment applies to TYPE I refinancing loans made to refinance a VA-guaranteed home loan.**

# Fee Recoupment, (Continued)

## Fee Recoupment Calculation:

Divide all fees, closing costs, and expenses by the reduction of the monthly P&I payment as a result of the refinance.

Prepaid expenses like homeowners' insurance, taxes, special assessments, and homeowner's association fees may be excluded from the 36-months recoupment calculations.



# Next Steps for VA and Lenders

Lenders are encouraged to submit their comments on the Rule, Impact Analysis, and Comparison Disclosure, *to include any supporting data*, no later than February 15, 2019 at:

<https://www.regulations.gov/docket?D=VA-2018-VBA-0026>

VA will respond to all public comments in a final rulemaking. Please stay tuned for additional guidance and updates to VA Circular 26-18-30, *Revisions to VA-Guaranteed Cash-Out Refinancing Home Loans*, based on initial feedback and requests for clarification.



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