

Policy Guidance Update: VA Refinance Loans and the Economic Growth, Regulatory Relief and Consumer Protection Act

1. **Purpose.** To inform program participants about the impact of the provisions of The Protecting Veterans From Predatory Lending Act of 2018, as it relates to Veterans Affairs (VA) home loan financing. Program participants must be aware of important program changes that go into effect immediately.

2. **Background.** The Senate passed S. 2155, The Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 on March 14, 2018, and the House voted in favor of S. 2155 on May 22, 2018. The bill has been signed by the President and is now law. S. 2155 includes The Protecting Veterans From Predatory Lending Act of 2018 (the Act), a measure designed to protect Veterans from predatory lending practices known as “loan churning” or “serial refinancing”, when obtaining a VA-guaranteed refinance loan. These practices not only impact Veterans negatively, but also disrupt the secondary mortgage market, resulting in higher interest rates to Veterans and lower returns to investors in the secondary market.

3. **Action.** VA-guaranteed loans must meet the requirements of the new law. Loan applications taken on or after May 25, 2018 that do not meet the following requirements will not be eligible for guaranty by VA.

a. **Fee Recoupment.** The lender, which also includes any broker or agent of the lender, and any servicer or issuer of an Interest Rate Reduction Refinance Loan (IRRRL), must:

(1) Provide recoupment statements to VA in accordance with VA Circular 26-18-1 and 26-18-1 Change 1, *Policy Guidance for VA Interest Rate Reduction Refinance Loans (IRRRL)*, and;

(2) Certify that all fees and incurred costs, referenced in VA Circular 26-18-1, shall be recouped on or before the date that is 36 months after the date of the loan, as determined by the date of the loan note. The recoupment calculation is described in the aforementioned Circular, and is the result of lower monthly payments of the refinanced loan.

b. **Net Tangible Benefit.** The lender, which also includes any broker or agent of the lender, and any servicer or issuer of an IRRRL, must provide the Veteran or borrower a net tangible benefit test (NTB) as follows:

(1) A case in which the previous VA loan had a fixed interest rate and the new refinanced loan will have a fixed interest rate; the new refinanced loan must have an interest rate that is not less than 50 basis points (.50 less in interest rate) less than the previous loan.

(2) A case in which the previous VA loan had a fixed interest rate and the new refinanced loan will have an adjustable interest rate, the new refinanced loan must have an interest rate that is not less than 200 basis points (2.00 less in interest rate) less than the previous loan, and

- (3) The lower interest rate is not produced solely from discount points unless;
 - (a) Such points are paid at closing; and

- (b) For discount point amounts that are less than or equal to one discount point, the resulting loan balance after any fees and expenses allows the property with respect to which the loan was issued to maintain a loan-to-value (see exhibit A, attached) ratio of 100 percent or less; and

- (c) For discount point amounts that are greater than one discount point, the resulting loan balance after any fees and expenses allows the property with respect to which the loan was issued to maintain a loan-to-value (see exhibit A, attached) ratio of 90 percent or less.

4. Loan Seasoning. All VA-guaranteed loans must be seasoned for a period of time, before refinancing to an IRRRL, also known as a VA streamline refinance. The seasoning period also applies to cash-out refinances when the principal amount of the new loan is less than the loan being refinanced. (Seasoning shall not apply to a VA cash-out or “regular” refinance if the principal amount of the new cash-out loan will exceed the amount of the loan being refinanced.) The required seasoning is the later of;

- (a) The date that is 210 days after the date on which the first payment is made on the loan, and;

- (b) The date on which the sixth monthly payment is made on the loan.

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

By Direction of the Under Secretary for Benefits

Jeffrey F. London
Director
Loan Guaranty Service

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