



Bulletin 19-08

Changes to VA Cash-Out Refinance Requirements

The Department of Veterans Affairs has announced changes to cash-out refinance transactions in VA [Circular 26-18-30](#) issued December 19, 2018, [Circular 26-18-30 Change 1](#) issued December 21, 2018 and [Circular 26-19-05](#) issued February 14, 2019.

VA has established new requirements for all VA cash-out refinance loans that are effective with loan applications dated on or after February 15, 2019. As a reminder, VA considers all refinance transactions "cash-out" (unless the transaction is an IRRRL).

With these changes, VA has broken out cash-out transactions into two (2) separate types and defined them as follows:

- **Type I Cash-Out Refinance:** A refinancing loan in which the **total loan amount, including the VA funding fee** (if financed), **does not** exceed the payoff amount of the loan being refinanced.

NOTE: HomeBridge management review and approval of Type I transactions is required and specific recoupment and interest rate requirements apply; refer to the [Type I Cash-out VA to VA Transactions Only](#) topic for details.

- **Type II Cash-Out Refinance:** A refinancing loan in which the **total loan amount**, including the VA funding fee (if financed), **exceeds** the payoff amount of the loan being refinanced

VA's new requirements for cash-out transactions are detailed below:

- **Loan-to-Value (LTV):** VA will **no longer** guaranty a cash-out refinance transaction when the LTV exceeds 100%. If the LTV exceeds 100%, the loan is **ineligible**

Reminder: HomeBridge caps the LTV/CLTV at 90% with a credit score of 550-579

- **LTV Calculation:** The LTV will now be calculated using the **total loan amount including the VA funding fee**, if financed (previously used the base loan amount) divided by the property value as determined by the appraiser (i.e. total loan amount divided by the property value)
- **Net Tangible Benefit:** VA will require **all** cash-out transactions to have a net tangible benefit (NTB) to the borrower. At least one of the following **must apply** to the cash-out transaction:
 - The new loan eliminates mortgage insurance, **or**
 - The term of the new loan is less than the remaining term of the loan being refinanced, **or**
 - The interest rate on the new loan is lower than the interest rate on the loan being refinanced (if the loan being refinanced is an ARM or was modified, the current interest rate must be used), **or**
 - The P&I payment on the new loan is lower than the P&I payment on the loan being refinanced, **or**

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- The new loan increases the borrower's monthly residual income (i.e. the **current** amount of the borrower's residual income vs. the amount of residual income the borrower will have with the new loan). Transactions where the taxes and insurance amounts vary between the new and old loan, the new taxes and insurance amounts must be used when determining/comparing residual income, **or**
 - The new loan refinances an ARM to a fixed rate, **or**
 - The new loan amount is $\leq 90\%$ of the reasonable value of the home, **or**
 - The new loan refinances an interim construction loan
- **Loan Comparison:** VA will also require the veteran be provided a comparison of the key differences between their existing loan to the new loan. The comparison must contain all of the following information:
 - Current loan payoff amount (including the VA funding fee if financed into the loan) vs. the loan amount of the new refinancing loan,
 - Loan type (ARM or fixed) of the current loan vs. new loan,
 - Interest rate of current loan vs. new loan,
 - Loan term of current loan vs. new loan,
 - The total of the remaining payments the veteran will have paid (principal and interest payments, and mortgage insurance, if applicable) on the current loan vs. the total P&I payments on the new refinancing loan, and
 - The loan payoff (including fees, escrow shortages, and prorated interest) vs. the LTV of the new loan
 - **Estimate of Home Equity:** The veteran must also be provided with an estimate of the home equity that will be lost due to the new refinancing loan. The estimate must contain an explanation of how the loss of equity may affect the veteran in the future.

Documentation Requirements: New HomeBridge VA Cash-out Refinance Comparison Certification

VA requires the veteran be provided the net tangible benefit (NTB), loan comparison, and estimate of equity information within **three (3) business days of loan application** and again at closing.

HomeBridge is providing a HomeBridge VA Cash-Out Refinance Comparison Certification that contains all of the information required by VA on one form. HomeBridge **will require** the use of the HomeBridge Certification.

The following requirements apply to the HomeBridge Certification form:

- Brokers or Non-Delegated Correspondent (NDC)/Emerging Banker (EB) **must provide the initial HomeBridge Certification to the veteran within three (3) business days of loan application**
- Brokers or NDC/EB must complete the required information using **reasonable estimates** available at the time the HomeBridge Certification is completed
- The veteran must sign the initial HomeBridge Certification acknowledging receipt within three (3) business days of application
- The completed and signed initial HomeBridge Certification will be required **at time of loan submission**

- The final version of the HomeBridge VA Cash-Out Refinance Comparison Certification, required to meet VA's at loan closing requirement, subject to the following:
 - **Brokered Transactions:** HomeBridge will complete and send with loan documents for signature
 - **NDC/EB Transactions:** HomeBridge will complete at time of CTC. NDC/EB is responsible to send to veteran with the loan documents for signature
- **Loan Seasoning:** VA's loan seasoning requirements apply to Type I **and** Type II cash-out refinance loans made to refinance an existing VA loan on non-VA loan. VA considers a loan seasoned on the later of the date that is:
 - 210 days after the first monthly payment was made (**not** the due date, but the **actual date the payment was made**), **and**
 - The date when six (6) consecutive monthly payments have been made on the loan; payments cannot be prepaid to meet the 6 payment requirement, and
 - Loans being refinanced within one (1) year from the original closing date **require the one (1) year pay history** of the loan be provided by the loan servicer, **no exceptions**. A credit report or credit supplement is **not** acceptable to document pay history

NOTE: All cash-out transactions must continue to meet Ginnie Mae seasoning requirements regardless of application date or type of loan being refinanced

Type I Cash-out VA to VA Transactions Only

The following fee recoupment and interest rate requirements **only apply to [Type I Cash-Out](#) loans made to refinance an existing VA loan only**; fee recoupment and interest rate requirements **do not** apply when refinancing a non-VA loan or to any Type II cash-out transaction. **HomeBridge management review and approval will be required on all Type I Cash-Out transactions.**

- **Fee Recoupment:** All fees, closing costs (excluding taxes, escrow, insurance, and like assessments), expenses, and incurred costs **must be recouped within 36 months from the date of loan closing.**

Recoupment Calculation: Divide all fees, expenses and closing costs included in the loan amount and paid outside of closing (excluding the VA funding fee, taxes, escrow and prepaid expenses, insurance, special assessments, and HOA fees) by the reduction of the monthly principal and interest payment as a result of the refinance.

Example:

P&I payment of loan being refinanced: \$654.00

P&I payment of new loan: \$604

Monthly reduction: \$50.00

Fees/expenses/closing costs: \$1,436.49

Reduction of monthly P&I: \$50.00

Fee recoupment period: \$1436 divided by \$50 = 29 months (28.72 rounded to 29)

NOTE: If the loan being refinanced has been modified, the principal and interest reduction must be computed/compared to the modified principal and interest monthly payment

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- **Interest Rate:** VA to VA [Type I Cash-Out](#) transactions are also subject to the following interest rate requirements:
 - **Fixed Rate to Fixed Rate:** The interest rate of the new loan must be a minimum of 50 basis points (.5%) **less than** the interest rate on the loan being refinanced
 - **Fixed Rate to ARM:** The interest rate of the new loan must be a minimum of 200 basis points (2%) **less than** the interest rate on the loan being refinanced. Additionally, the following applies:
 - **Discount Points > 1%:** If discount points > 1% are included in the new loan amount, the transaction is limited to **90% LTV**
 - **Discount Points ≤ 1%:** If discount points ≤ 1% are included in the new loan amount, the transaction is eligible for 100% LTV

DU Messaging - All VA Cash-Out Transactions

VA cash-out refinance transactions previously submitted to DU that received an “Approve/Eligible” Finding that are re-submitted **after** February 15, 2019 may receive a “Refer” finding, **even when the application is dated prior to February 15, 2019**, if the LTV exceeds 100%.

Loans with an application date **prior to February 15th** that receive a “Refer” Finding when re-submitted to DU will then require:

- The loan amount be reduced to achieve 100% LTV and the loan re-submitted to DU to receive an “Approve/Eligible” finding, **OR**
- The loan must be manually underwritten. If the loan qualifies under manual underwriting guidelines the loan may proceed with an LTV that exceeds 100% (as long as the application is dated prior to February 15th)

NOTE: Loans requiring a manual underwrite due to “Refer” for the LTV will **not be** subject to the manual underwrite pricing adjustment.

The new HomeBridge VA Cash-Out Refinance Comparison Certification has been posted on the Forms page under “VA Specific – HomeBridge VA Forms” on the HomeBridge website.

A VA Cash-Out Comparison document has also been created to provide a quick reference of the new cash-out transactions by type and is posted on the Working with Us page under “VA Specific”

Additionally, the VA Program guidelines and the VA Submission form have been updated with this information and posted on the HomeBridge website at www.HomeBridgeWholesale.com

If you have any questions, please contact your Account Executive.