Underwriting Guidelines—VA Interest Rate Reduction Refinancing Loans (IRRRL)
OVERVIEW

Purpose

The following document describes the responsibilities and requirements of the Carrington Mortgage Services, LLC (CMS) Mortgage Lending Division Underwriter (Underwriter) when reviewing and underwriting VA mortgage loan applications.

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Related Documents

VA Borrower Fees and Charges

Revision History

<table>
<thead>
<tr>
<th>Date</th>
<th>Version</th>
<th>Description of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>05/24/12</td>
<td>1.0</td>
<td>New document.</td>
</tr>
</tbody>
</table>
VA IRRRL LOAN UNDERWRITING

VA IRRRL Definition

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.

The CMS IRRRL product requires a minimum appraisal requirement to be a conventional 2055 form (drive by) from a CMS approved vendor. Additionally, for non-credit qualified IRRRLs, a tri-merged credit report with FICO score and mortgage history for the subject property is required.

INTEREST RATE AND PAYMENT CHANGES

Interest Rate Decrease Requirement

An IRRRL must bear a lower interest rate than the loan it is refinancing, unless the loan it is refinancing is an adjustable rate mortgage (ARM).

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 apply:

- The IRRRL is refinancing an ARM, or
- The term of the IRRRL is shorter than the term of the loan being refinanced,

A significant increase in the veteran’s monthly payment may occur with any of the previous two 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, CMS 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.
VETERAN’S STATEMENT AND LENDER’S CERTIFICATION

Requirements
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:
- The veteran’s monthly payment decreases by $50.
- The veteran 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 the loan, etc.).

The veteran’s statement may be combined with the lender’s certification and should be on the lender’s own letterhead. (Refer to the CMS form.)

CLOSING

Permissible Closing Costs
The following fees and charges may be included in an IRRRL:

- The funding fee, and
- Any allowable fees and charges discussed in the Allowable Fees and Charges section of the VA Borrower Fees and Charges Guide (such as all allowable closing costs, including the lender’s flat charge).

Exception: 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 CMS to satisfy its lending requirements may be charged to the borrower and included in the loan.

CMS 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 been commenced.
Closing (continued)

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.

In a limited number of situations, the borrower may receive cash at closing. Some examples of situations in which the 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. CMS 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.

MAXIMUM LOAN AMOUNT

Requirements  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 all of the following:

- Including any late payments and late charges,

  **Note:** Any IRRRL that includes delinquent payments in the loan amount must be submitted for prior approval, even when a lender has automatic authority.

- Allowable fees and charges (includes up to two discount points),

- The VA funding fee.

  **Note:** CMS’ maximum loan amount is $700,000 for VA IRRRLs.
AMOUNT OF GUARANTY AND ENTITLEMENT USE

Requirements

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 remains at $25,000.
Amount of Guaranty and Entitlement Use (continued)

<table>
<thead>
<tr>
<th>Requirements (continued)</th>
<th>Amount</th>
<th>How to calculate the amount of guaranty on an IRRRL</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRRRLs up to $45,000</td>
<td>First calculate the lesser of:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● 50 percent of the IRRRL loan amount, or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● The amount of guaranty used on the VA loan being refinanced.</td>
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<tr>
<td></td>
<td>The amount of guaranty is the greater of:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● The above result, or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● 25 percent of the IRRRL loan amount.</td>
<td></td>
</tr>
<tr>
<td>IRRRLs of $45,001 to $56,250</td>
<td>First calculate the lesser of:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● $22,500, or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● The amount of guaranty used on the VA loan being refinanced.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The amount of guaranty is the greater of:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● The above result, or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● 25 percent of the IRRRL loan amount.</td>
<td></td>
</tr>
<tr>
<td>IRRRLs of $56,251 to $144,000</td>
<td>First calculate the lesser of:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● 40 percent of the IRRRL loan amount, or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● The amount of guaranty used on the VA loan being refinanced.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The amount of guaranty is the greater of:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● The above result, or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● 25 percent of the IRRRL loan amount.</td>
<td></td>
</tr>
<tr>
<td>IRRRLs greater than $144,000</td>
<td>Guaranty on these is always 25 percent of the IRRRL loan amount.</td>
<td></td>
</tr>
</tbody>
</table>

MAXIMUM LOAN TERM

Requirements

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 year cannot exceed 25 years.
TITLE/LIEN REQUIREMENTS

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 and occupy the property.

OBLIGATED PARTIES ON AN IRRRL

Requirements
Generally, the parties obligated on the original loan must be the same on the new loan, and the veteran must still occupy 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 below.

Examples:

<table>
<thead>
<tr>
<th>Parties obligated on old VA Loan</th>
<th>Parties to be obligated on new IRRRL</th>
<th>Is IRRRL Possible?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Unmarried veteran</td>
<td>Veteran and new spouse</td>
<td>Yes</td>
</tr>
<tr>
<td>2 Veteran and spouse</td>
<td>Divorced veteran alone</td>
<td>Yes</td>
</tr>
<tr>
<td>3 Veteran and spouse</td>
<td>Veteran and different spouse</td>
<td>Yes</td>
</tr>
<tr>
<td>4 Veteran alone</td>
<td>Different veteran who has substituted entitlement</td>
<td>Yes</td>
</tr>
<tr>
<td>5 Veteran and spouse</td>
<td>Spouse alone (veteran died)</td>
<td>Yes</td>
</tr>
<tr>
<td>6 Veteran and nonveteran joint loan obligors</td>
<td>Veteran alone</td>
<td>Yes</td>
</tr>
<tr>
<td>7 Veteran and spouse</td>
<td>Divorced spouse alone</td>
<td>No</td>
</tr>
<tr>
<td>8 Unmarried veteran</td>
<td>Spouse alone (veteran died)</td>
<td>No</td>
</tr>
<tr>
<td>9 Veteran and spouse</td>
<td>Different spouse alone (veteran died)</td>
<td>No</td>
</tr>
<tr>
<td>10 Veteran and nonveteran joint loan obligors</td>
<td>Nonveteran alone</td>
<td>No</td>
</tr>
</tbody>
</table>
Obligated Parties on an IRRRL (continued)

Requirements

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 (below), 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.

Case 8 - In the case of the unmarried veteran obtaining the original loan:

- 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.

Case 9 - In the case of the veteran and spouse obligated on the original loan:

- 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.

Case 10 - In the case of the veteran/nonveteran joint loan:

- 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.

Underwriting 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, CMS will consider the following:

- Check mortgage payment record in lieu of obtaining a full credit report, unless required by the 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.

CMS 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 where there has been a change in obligors.

OCCUPANCY

Requirements

For IRRRLs, the veteran or the spouse of an active servicemember must certify that he/she currently occupies the property as his/her home.
Underwriting Guidelines
(VA IRRRL Loans)
Mortgage Lending Division
Version 1.0 – 05/24/12

VA LOAN IDENTIFICATION NUMBER

Requirements  Request a new loan number for each IRRRL through the Appraisal System, without requesting an appraisal.

CREDIT UNDERWRITING

Requirements  No credit information or underwriting is required, unless:
   - The loan to be refinanced is 30 days or more past due, or
   - The monthly payment (PITI) will increase 20 percent more.

Note: CMS is not participating in refinancing delinquent VA mortgages. All payments must be 0x30 past 12 months.

A borrower with a recent Chapter 13 bankruptcy may need approval of the trustee for the new loan.

PRIOR APPROVAL PROCEDURES

Requirements  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.

CMS may choose to submit an IRRRL for prior approval. In such cases, 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 outlined in the VA Lender’s Handbook.

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.
AUTOMATIC PROCESSING OF IRRRLS

Requirements

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.

A loan must be reported (such as all documentation submitted) to VA within 60 days of closing. If CMS fails to meet this time limit must provide a written explanation.

To report a loan, submit the following documents to VA in the order listed below:

1. CMS’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
5. Statement signed by the veteran, acknowledging the effect of the refinancing loan on the veteran's loan payments and interest rate.
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. CMS’ certification that the prior loan was current (not 30 days or more past due) at the time of loan closing
12. If the loan is submitted more than 60 days after loan closing, a statement signed by a corporate officer of CMS 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.
14. Any other necessary documents
**QUICK REFERENCE TABLE**

<table>
<thead>
<tr>
<th>Feature</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purpose</strong></td>
<td>To refinance an existing VA loan at a lower interest rate.</td>
</tr>
<tr>
<td><strong>Interest Rate</strong></td>
<td>Rate must be lower than an existing VA loan (unless existing loan is an ARM)</td>
</tr>
<tr>
<td><strong>Monthly Payment Amount</strong></td>
<td>Payment must be lower than that on an existing VA loan (unless existing loan is an ARM or a term is being shortened)</td>
</tr>
<tr>
<td><strong>Discount Points</strong></td>
<td>Reasonable points can be paid; only two of these points can be included in the loan</td>
</tr>
<tr>
<td><strong>Maximum Loan</strong></td>
<td>Existing VA loan balance, plus allowable fees and charges, plus up to two discount points, plus the VA funding fee</td>
</tr>
<tr>
<td><strong>Maximum Guaranty</strong></td>
<td>Guaranty is at least 25 percent in all cases</td>
</tr>
<tr>
<td><strong>Entitlement</strong></td>
<td>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</td>
</tr>
<tr>
<td><strong>Fees and Charges in the Loan</strong></td>
<td>All allowable fees and charges, including up to two discount points, may be included in the loan</td>
</tr>
<tr>
<td><strong>Cash to Borrower</strong></td>
<td>Not permitted</td>
</tr>
<tr>
<td><strong>Lien/Ownership</strong></td>
<td>Must be secured by first lien; veteran must own property</td>
</tr>
<tr>
<td><strong>Refinance of Other Liens</strong></td>
<td>Cannot refinance other liens; can only refinance the existing VA loan</td>
</tr>
<tr>
<td><strong>Maximum Loan Term</strong></td>
<td>Existing VA loan term plus 10 years, not to exceed 30 years + 32 days</td>
</tr>
<tr>
<td><strong>Occupancy</strong></td>
<td>Veteran or spouse of an active duty servicemember must certify to prior occupancy</td>
</tr>
<tr>
<td><strong>Appraisal</strong></td>
<td>No appraisal is required</td>
</tr>
<tr>
<td><strong>Credit Underwriting</strong></td>
<td>No underwriting is required, except in certain cases</td>
</tr>
<tr>
<td><strong>Automatic Authority</strong></td>
<td>All lenders can close IRRRLs automatically, except if the loan being refinanced is 30 days or more past due, then prior approval is required</td>
</tr>
<tr>
<td><strong>Law</strong></td>
<td>38 U.S.C. 3710(a)(8)</td>
</tr>
</tbody>
</table>