



Your Easiest Path to Homeownership™

Issue Date 02/21/19

Effective Date As Noted

GA 2019-002

## VA Cash-Out Transactions

**Purpose**

This announcement includes the following topic:  
✓ VA Circulars 26-18-30 & 26-19-05 Cash Out Updates

**Summary**

VA has divided cash-out transactions into two different types: Type I and Type II. Also a Net Tangible Benefit Loan Comparison must be provided to the borrower twice.

*Note: This does not apply to VA regulations pertaining to IRRRLs.*

**Requirements Applicable to All VA Cash-Out Refinances**

In addition to the specific requirements for Type I and Type II, **ALL** VA cash out refinances must adhere to the following:

LTV	<ul style="list-style-type: none"> <li>• Max LTV of 100%, including VA Funding Fee</li> <li>• LTV is calculated by dividing the total loan amount by the reasonable value on the Notice of Value (NOV)</li> </ul>
Net Tangible Benefit Test (NTB)	<p>Must satisfy one of the following:</p> <ul style="list-style-type: none"> <li>• The new loan eliminates monthly MI, whether public or private, or monthly guarantee insurance;</li> <li>• The term of the new loan is shorter than the term of the loan being refinanced;</li> <li>• The interest rate on the new loan is lower than the interest rate on the loan being refinanced;</li> <li>• The payment on the new loan is lower than the payment on the loan being refinanced;</li> <li>• The new loan results in an increase in the borrowers residual income **See NTB Residual Income calculation;</li> </ul> <p>(continued on next page)</p>





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## VA Cash-Out Transactions, Continued

### Requirements

Applicable to All  
VA Cash-Out  
Refinances,  
continued

Net Tangible Benefit Test (NTB), continued	<ul style="list-style-type: none"> <li>the new loan refinances an interim loan to construct, alter, or repair the home;</li> <li>the new loan amount is equal to or less than 90 percent of the reasonable value of the home; or</li> <li>the new loan refinances an adjustable rate loan to a fixed rate loan</li> </ul>
Loan Comparison	<p>The comparison must be provided to the borrower in accordance to VA requirements. A comparison of key loan terms or characteristics for the existing and refinancing loan, including the following:</p> <ul style="list-style-type: none"> <li>Refinancing loan amount vs the payment amount of the loan being refinanced;</li> <li>Loan type (i.e. fixed, adjustable) of the refinancing loan vs the loan being refinanced;</li> <li>Interest rate of the refinancing loan vs the loan being refinanced;</li> <li>Loan term of the refinancing loan vs the loan being refinanced;</li> <li>The total the veteran will have paid after making all principal and interest payments and mortgage insurance as scheduled for both the refinancing loan and the loan being refinanced;</li> <li>LTV of the refinancing loan vs the loan being refinanced.</li> </ul> <p>(continued on next page)</p>

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## VA Cash-Out Transactions, Continued

**Requirements  
Applicable to All  
VA Cash-Out  
Refinances,  
continued**

Home Equity Removal Estimate	An estimate of the 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 veteran.
Construction-to-Permanent Refinancing	Refinancing of construction-to-permanent loans are considered cash-out refinances regardless of whether there is a change to the principal loan amount; this type of loan will be subject to being either a Type I or Type II cash-out refinance.
NTB-Residual Income Calculation	If the amount for taxes and/or insurance are changing between the application and closing date of the new loan, the new tax and insurance amount must be used when determining residual income for the current and refinanced loan
Loans being refinanced within 1 year of the Closing date	Loans being refinanced within 1 year from the date of closing require a payment history/ledger from the servicing lender documenting all payments unless a credit bureau supplement clearly identifies all payments made in that timeframe. This must be retained in the lender file for audit purposes.
Additional Requirements	<ul style="list-style-type: none"> <li>✓ The NTB, Loan Comparison and Home Equity Removal estimate must be provided to the borrower <b>twice</b>: <ul style="list-style-type: none"> <li>• Three business days from loan application</li> <li>• At loan closing</li> </ul> </li> <li>✓ Discount points, if any, must be reasonable</li> <li>✓ Loan must otherwise be eligible for guarantee</li> </ul>

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

In addition to the requirements for all VA cash-out refinances, Type I refinance loans must also meet the following:

- ✓ The new loan amount is less than or equal to the payoff amount of the loan being refinanced;
- ✓ Loans to refinance an existing VA-guaranteed loan are subject to the Fee Recoupment requirement:
  - The recoupment period of all fees, closing costs, expenses (other than taxes, escrows, insurance and like assessments) and incurred costs must not exceed 36 months from the date of the loan closing.
  - Calculation: divide all fees, closing costs, expenses and incurred costs by the reduction of the monthly P & I payment as a result of the of the refinance.
    - Prepaid expenses such as HOI, taxes, special assessments and HOA fees may be excluded from the calculation;
    - If the loan being refinanced has been modified, the P&I reduction must be computed/compared to the modified P&I monthly payment
  - To receive a Loan Guaranty Certificate the lender must certify to VA that the fee recoupment requirement is met.
- ✓ New note date is the later of:
  - 210 days from the first payment date made, **and**
  - The date the 6<sup>th</sup> monthly payment is made

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## VA Cash-Out Transactions, Continued

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### Type I Cash-Out Refinance, continued

- ✓ Interest rate requirements – if the loan being refinanced is a VA-guaranteed and fixed rate:
    - Fixed rate-to-fixed rate: interest rate of the refinancing loan may not be less than 0.5% (50 basis points) of the interest rate of the loan being refinanced
    - Fixed rate-to-adjustable rate: interest rate of refinancing loan may not be less than 2% (200 basis points) of the interest rate on the loan being refinanced.
      - Discount points >1%: if included in new loan amount, new loan LTV may not exceed 90%
      - Discount points ≤1%: if included in new loan amount, new loan LTV may not exceed 100%
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### Type II Cash-Out Refinance

Definition: A refinancing loan in which the loan amount (including VA funding fee) exceeds the payoff amount of the loan being refinanced.

In addition to the requirements for all VA cash-out refinances, Type II refinance loans must also meet the following:

- ✓ New loan amount exceeds the payoff of the amount of the loan being refinanced
  - ✓ New note date is the later of
    - 210 days from the first payment date, **and**
    - The date the 6<sup>th</sup> monthly payment is made
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### IRRRs

Requirements and definition are unchanged: A refinancing loan made to refinance an existing VA home loan at a lower interest rate. See [VA Circular 26-18-13](#) and [26-18-13 Exhibit A](#).

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## Guide Announcement

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### VA Cash-Out Transactions, Continued

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**Effective Date**      Effective with applications taken on or after February 15, 2019.

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**Reference**      [VA Circular 26-18-30 and 26-18-30 Change 1](#)

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**Questions**      Retail – Please contact your immediate manager  
Mod Corr – Please contact your Account Executive

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**GA-2019-002**

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Page 6 of 6

