

## **Policy Guidance for VA Interest Rate Reduction Refinance Loans (IRRRL)**

1. Purpose. The purpose of this Circular is to inform lenders of new policy guidance on IRRRL disclosures.

2. Background. VA Pamphlet 26-7, Lenders Handbook, Chapter 6, *Refinancing Loans*, Section 1d, did not inform lenders when the Veteran's statement and lender's certification should be delivered to the Veteran. The result was that some lenders did not provide the IRRRL statement prior to loan closing. Early disclosure in the application process affords Veterans the opportunity to make informed decisions and determine if the proposed IRRRL is in their best interest.

3. Action. Starting with loans closed on and after April 1, 2018, lenders should:

a. Provide the Veteran's Statement and Lender Certification (note: lender certification only needed for payment increases of 20 percent or more), as outlined in VA Lender's Handbook, Chapter 6 section 1d. Lenders should provide this information to the Veteran with the initial disclosure documents no later than the third business day after receiving the Veteran's application.

b. For the initial *Statement*, add the following categories from the Loan Estimate (this is the total costs plus the VA funding fee):

(1) Origination charges, services you cannot shop for, services you can shop for, taxes and other government fees, other, or VA funding fee

(2) For the initial *Statement*, VA would subtract any lender credits listed in section J.

(3) The remainder is the closing costs for the recoupment calculation.

(4) Divide the closing costs in (3) above by the decrease in monthly principal and interest payment for the number of months to recoup.

c. For the final *Statement*, add the following categories from the Closing Disclosure:

(1) Origination charges, services borrower did not shop for, services borrower did shop for, taxes and other government fees, other, or VA funding fee

(2) For the final *Statement*, subtract any lender credits from section J.

(3) The remainder is the closing costs for the final recoupment calculation.

(4) Divide the closing costs in (3) above by the decrease in monthly principal and interest payment for the number of months to recoup.

d. Lenders should confirm in the Loan Guaranty Certificate (LGC) process that the Veteran was provided the disclosures as prescribed in 3(a). More information about system enhancements will be forthcoming.

e. Provide VA with the Veteran Statement and Lender Certification (note: lender certification needed only for payment increases of 20 percent or more), as outlined in VA Lender's Handbook, Chapter 6, section 1d, and VA Form 26-8923, *Interest Rate Reduction Refinancing Loan Worksheet*, at the point of requesting the LGC. Again, more information about system enhancements will be forthcoming.

f. In the case of an increased principal and interest payment due to a lower term, or from changing from an adjustable rate to a fixed rate, it is not necessary to show the recoupment in months; however, lenders should show all other fields in the *Statement*.

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

By Direction of the Under Secretary for Benefits

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Distribution: CO: RPC 2021

SS (26A1) FLD: VBAFS, 1 each (Reproduce and distribute based on RPC 2021)