

Guidance for Noncompliant Interest Rate Reduction Refinance Loans (IRRRLs)

1. Purpose. The purpose of this Circular is to outline VA's expectations regarding loans that fail to meet the statutory requirements set forth in section 309 of [Public Law 115-174](#), *The Economic Growth, Regulatory Relief, and Consumer Protection Act* (the Act), and codified at 38 U.S.C. § 3709.

2. Background. Section 309 of the Act provides statutory criteria, i.e., fee recoupment, net tangible benefit test, and loan seasoning, that affect whether VA can guarantee refinance loans. VA notified lenders in VA Circular 26-19-22, *Clarification and Updates to Policy Guidance for VA Interest Rate Reduction Refinance Loans (IRRRLs)*, that to receive and retain the full amount of VA's guaranty, an IRRRL must meet the requirements of the Act. The Circular also informed lenders that they may take steps to cure noncompliant IRRRLs where the loan application was initiated on or after May 25, 2018, and before the publication date of the Circular, August 8, 2019.

3. Action. Lenders must ensure that all IRRRLs comply with the requirements outlined in VA Circular 26-19-22. VA expects lenders to self-identify, review, and cure any noncompliant VA-guaranteed IRRRLs at no cost to the borrower(s). Effective immediately, all lenders must:

a. Enterprise Level Reporting. Submit a list of all VA-guaranteed IRRRLs that currently do not meet statutory requirements, or were found to be non-compliant, in a given business quarter. The report must be submitted to VA by the 1st of every business quarter (January 1, April 1, July 1, September 1). Lenders without an IRRRL that is currently non-compliant should not file the report and/or notify VA. This report will be emailed to the Regional Loan Center (RLC) of jurisdiction for the lender's corporate office. The email addresses for each of the RLCs are available at:
https://www.benefits.va.gov/HOMELOANS/contact_rlc_info.asp.

(1) The report will include the methodology used to identify the noncompliant IRRRLs. The report will include all currently non-compliant IRRRLs with application dates on or after May 25, 2019, that have not been cured, regardless of whether they were reported in prior quarters. For each IRRRL listed, the lender must provide a certification that all noncompliant IRRRLs have been cured (or are in the process of being cured). For each loan, the lender must provide the VA LIN (Loan Identification Number) and all statutory requirement(s) that the loan does not meet (e.g., fee recoupment, net tangible benefit, loan seasoning, etc.).

b. Loan Level Reporting. Determine a plan to cure any noncompliant IRRRLs at no cost to the borrower(s). Loan cures may include, but are not limited to, interest rate reductions, principal balance reductions of fees and costs, or new refinance loans. If the loan has been paid in full, the lender can issue a check to the Veteran to cure a non-compliant IRRRL that resulted in financial losses (i.e. failure to meet recoupment, interest rate reduction requirements, etc). Please note that whatever action is taken, it must not result in any

additional costs, such as VA funding fees, discount points, or other loan-related fees and charges (i.e., appraisal fee, closing fee, title fee, credit report fee), to the borrower(s).

(1) The lender must provide supporting documentation of the cure. Supporting documentation must include evidence of the non-compliance such as the recoupment calculation, Closing Disclosure, first payment due date, etc. for review, outline the cure method(s), how borrowers are notified of the cure(s), the approximate timeframe for curing the IRRRLs, together with an actual/target completion date, and any curative actions completed to date. Corrective action and supporting documentation must be uploaded into WebLGY "Correspondence" as Document Association "IRRRL" > Document Type "IRRRL Disclosure Compliance". (Note: These documents should NOT be submitted to VA as a prior approval request.)

c. Loan seasoning issues. There is no cure for loan seasoning violations. For loan seasoning violations, VA will allow the lender to execute an indemnification agreement for the life of the loan, holding VA harmless against any and all claims associated with the VA guaranty. However, if these IRRRLs have other deficiencies that can be corrected (i.e., net tangible benefit and/or fee recoupment), lenders must cure these deficiencies before contacting VA regarding the indemnification agreement.

4. Oversight of Lender Actions. VA will audit non-compliant IRRRLs to ensure that appropriate action(s) was taken to bring the loans into compliance and that such action(s) did not result in any cost to the borrower(s). VA will notify the lender of any cure deficiencies identified and will provide the lender an opportunity to cure the deficiency.

5. Additional Questions. Enclosed with this Circular are some Frequently Asked Questions (FAQs) labeled Exhibit A. For additional questions, please contact your VA Regional Loan Center (RLC) by calling 1-877-827-3702 within the hours of operation between 8am to 6pm EST.

6. Rescission: This Circular is rescinded April 1, 2023.

By Direction of the Under Secretary for Benefits

Jeffrey F. London
Director
Loan Guaranty Service