



# LENDERS HANDBOOK

[VA-Pamphlet 26-7]

## CHAPTER 6

# REFINANCING LOANS



## Chapter 6. Refinancing Loans

### Overview

**In this Chapter** This chapter contains the following topics.

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## 1. Interest Rate Reduction Refinancing Loans (IRRRLs)

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**Change Date** April 10, 2009, Change 11

- This section has been changed to update hyperlinks and to make minor grammatical edits.

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**a. What is an IRRRL?** 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.

Generally, no appraisal, credit information or underwriting is required on an IRRRL, and any lender may close an IRRRL automatically.

*Note:* Exceptions and specific requirements are explained in the remainder of this section.

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**b. Interest Rate Decrease Requirement** An IRRRL (which can be a fixed rate, hybrid Adjustable Rate Mortgage (ARM) or traditional ARM) must bear a lower interest rate than the loan it is refinancing unless the loan it is refinancing is an ARM.

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**c. 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 applies:

- the IRRRL is refinancing an ARM,
- term of the IRRRL is shorter than the term of the loan being refinanced, or
- energy efficiency improvements are included in the IRRRL.

A significant increase in the veteran's monthly payment may occur with any of these three 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.
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## 1. Interest Rate Reduction Refinancing Loans (IRRRLs),

Continued

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**c. Payment  
Decrease/  
Increase  
Requirements  
(continued)**

If the monthly payment (PITI) increases by 20 percent or more, the lender 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.

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**d. Veteran's  
Statement and  
Lender's  
Certification**

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:***

- Vet's monthly payment decreases by \$50.00.
- Vet 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 loan, etc.).

The veteran's statement may be combined with the lender's certification and should be on the lender's own letterhead. For a sample please go to:  
[http://www.homeloans.va.gov/docs/VA\\_Rate\\_Reduction\\_Cert.pdf](http://www.homeloans.va.gov/docs/VA_Rate_Reduction_Cert.pdf)

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## 1. Interest Rate Reduction Refinancing Loans (IRRRLs),

Continued

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**e. What Closing Costs can be Included in the Loan?**

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

- the VA funding fee, and
- any allowable fees and charges discussed in section 2 of [chapter 8](#); such as, all allowable closing costs, including the lender's flat charge.

***However, There Is One Limitation***

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 a lender to satisfy its lending requirements may be charged to the borrower and included in the loan.

The lender 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 commenced.
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**f. When Can the Borrower Receive 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.

The one exception is reimbursement of the veteran for the cost of energy efficiency improvements up to \$6,000 completed within the 90 days immediately preceding the date of loan closing.

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## 1. Interest Rate Reduction Refinancing Loans (IRRRLs),

Continued

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**f. When Can the Borrower Receive Cash at Closing?**  
(continued)

*Note:* Use of loan proceeds for energy efficiency improvements **not** involving cash reimbursement of the veteran is also an option. See section 3 of [chapter 7](#).

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

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**g. Maximum Loan**

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 the following:

- including any late payments\* and late charges, plus
- allowable fees and charges (includes up to two discount points), plus
- the cost of any energy efficiency improvements, and
- the VA funding fee.

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

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## 1. Interest Rate Reduction Refinancing Loans (IRRRLs),

Continued

**g. Maximum Loan**  
(continued)

*Note:* There is no maximum dollar amount for VA loans. Since an IRRRL rolls the above items into the new loan, and VA guarantees at least 25 percent of the loan amount (without regard to the veteran's entitlement), the new loan amount may be more than the limits established by the secondary market. It is the lender's responsibility to ensure it has a marketable loan.

**h. Amount of Guaranty and Entitlement Use**

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 use remains at \$25,000.

Amount	How to calculate the amount of guaranty on an IRRRL
IRRRLs up to \$45,000	<p>First, calculate the lesser of:</p> <ul style="list-style-type: none"> <li>• 50 percent of the IRRRL loan amount, or</li> <li>• the amount of guaranty used on the VA loan being refinanced.</li> </ul> <p>The amount of guaranty is the greater of:</p> <ul style="list-style-type: none"> <li>• the above result, or</li> <li>• 25 percent of the IRRRL loan amount.</li> </ul>

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# 1. Interest Rate Reduction Refinancing Loans (IRRRLs),

Continued

## h. Amount of Guaranty and Entitlement Use (continued)

Amount	How to calculate the amount of guaranty on an IRRRL
IRRRLs of \$45,001 to \$56,250	<p>First, calculate the lesser of:</p> <ul style="list-style-type: none"> <li>• \$22,500, or</li> <li>• the amount of guaranty used on the VA loan being refinanced.</li> </ul> <p>The amount of guaranty is the greater of:</p> <ul style="list-style-type: none"> <li>• the above result, or</li> <li>• 25 percent of the IRRRL loan amount.</li> </ul>
IRRRLs of \$56,251 to \$144,000	<p>First, calculate the lesser of:</p> <ul style="list-style-type: none"> <li>• 40 percent of the IRRRL loan amount, or</li> <li>• the amount of guaranty used on the VA loan being refinanced.</li> </ul> <p>The amount of guaranty is the greater of:</p> <ul style="list-style-type: none"> <li>• the above result, or</li> <li>• 25 percent of the IRRRL loan amount.</li> </ul>
IRRRLs greater than \$144,000	<p>Guaranty on these is always 25 percent of the IRRRL loan amount.</p>

## i. Maximum Loan Term

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 loan cannot exceed 25 years.

## j. Title/Lien 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 the property.

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## 1. Interest Rate Reduction Refinancing Loans (IRRRLs),

Continued

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**k. Who Can an IRRRL be Made to?**

Generally, the party(ies) obligated on the original loan must be the same on the new loan (and the veteran must still own 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 in this subsection.

***Examples:***

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, 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.

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

- 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.

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

- 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.

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# 1. Interest Rate Reduction Refinancing Loans (IRRRLs),

Continued

**k. Who Can an IRRRL be Made to?**  
(continued)

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

- 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.**

Parties Obligated on Old VA Loan		Parties to be Obligated on new IRRRL	Is IRRRL Possible?
1	Unmarried veteran	Veteran and new spouse	Yes
2	Veteran and spouse	Divorced veteran alone	Yes
3	Veteran and spouse	Veteran and different spouse	Yes
4	Veteran alone	Different veteran who has substituted entitlement	Yes
5	Veteran and spouse	Spouse alone (veteran died)	Yes
6	Veteran and nonveteran joint loan obligors	Veteran alone	Yes
7	Veteran and spouse	Divorced spouse alone	No
8	Unmarried veteran	Spouse alone (veteran died)	No
9	Veteran and spouse	Different spouse alone (veteran died)	No
10	Veteran and nonveteran joint loan obligors	Nonveteran alone	No

**l. Underwriting of IRRRLs When Obligor(s) Have Changed**

Although VA does **not** require any credit/income documentation or re-underwriting of IRRRLs when there has been a change in obligors, lenders may want to consider the following:

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

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## 1. Interest Rate Reduction Refinancing Loans (IRRRLs),

Continued

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**l. Underwriting of IRRRLs When Obligors Have Changed**  
(continued)

The lender 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 when there has been a change in obligors.

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**m. Occupancy**

For IRRRLs, the veteran or the spouse of an active servicemember must certify that he or she previously occupied the property as his or her home. This is different than the requirement for non-IRRRL VA loans that the veteran must intend to personally occupy the property as his or her home.

*Reference:* See [chapter 3](#) for details.

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**n. VA Loan Identification Number**

Request a new loan number for each IRRRL through [The Appraisal System \(TAS\)](#), without requesting an appraisal.

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**o. Credit Underwriting**

No credit information or underwriting is required unless:

- the loan to be refinanced is 30 days or more past due (see section 2 of this chapter) or,
- the monthly payment (PITI) will increase 20 percent or more.

*Reference:* See subsection d of this section.

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

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**p. Prior Approval Procedures**

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.

*Exception:* For IRRRLs to refinance existing VA loans 30 days or more past due, VA prior approval is needed (see section 2, subsection a of this chapter).

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# 1. Interest Rate Reduction Refinancing Loans (IRRRLs),

Continued

**p. Prior Approval Procedures**  
(continued)

A lender may choose to submit an IRRRL for prior approval, even if the existing loan is not 30 days or more past due. In such cases, submit only items 1 through 10 (and 17, if applicable) of the information listed under “Prior Approval Submission.” Also 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 under section 2, subsection c of this chapter.

**Note:** Prior approval for IRRRLs is **not required** for veteran’s in receipt of nonservice-connected pension or for veterans rated incompetent by VA when these veterans meet the requirements of this section.

**q. Procedures for Automatic Processing of IRRRLs**

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.

**Exception:** For IRRRLs to refinance existing VA loans 30 days or more past due, VA prior approval is needed. See section 2, subsection a, of this chapter.

A loan must be reported (such as, all documentation submitted) to VA within 60 days of closing. A lender that fails to meet this time limit must provide a written explanation. (see document #12.)

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

Order	Document
1	Lender’s cover or transmittal letter (if used).
2	<a href="#">VA Form 26-0286</a> , VA Loan Summary Sheet.
3	VA Form 26-8320 (or 26-8320a), Certificate of Eligibility, or a request for a duplicate certificate on <a href="#">VA Form 26-1880</a> , Request for a Certificate of Eligibility.
4	Funding fee receipt.  <b>Reference:</b> See section 8 of <a href="#">chapter 8</a> for information on exemptions.

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## 1. Interest Rate Reduction Refinancing Loans (IRRRLs),

Continued

### q. Procedures for Automatic Processing of IRRRLs (continued)

Order	Document
5	<p>Statement signed by the veteran acknowledging the effect of the refinancing loan on the veteran's loan payments and interest rate.</p> <ul style="list-style-type: none"> <li>• The statement must show the interest rate and monthly payments for the new loan versus that for the old loan.</li> <li>• The statement must also indicate how long it will take to recoup ALL closing costs (both those included in the loan and those paid outside of closing).</li> <li>• If applicable, the veteran's statement may be combined with the lender's certification that the veteran qualifies for the new monthly payment which exceeds the previous payment by 20% or more.</li> </ul>
6	<p><a href="#">VA Form 26-8923</a>, Interest Rate Reduction Refinancing Loan Worksheet.</p>
7	<p><a href="#">VA Form 26-1820</a>, Report and Certification of Loan Disbursement.</p>
8	<p><a href="#">VA Form 26-8937</a>, Verification of VA Benefits (if applicable).</p>
9	<p><a href="#">HUD-1</a>, settlement statement.</p>
10	<p><a href="#">VA Form 26-0503</a>, Federal Collection Policy Notice.</p>
11	<p>Lender's certification that the prior loan was current (not 30 days or more past due) at the time of loan closing.</p>
12	<p>If loan is submitted more than 60 days after loan closing, a statement signed by a corporate officer of the lender 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.</p>
13	<p>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.</p> <p><i>Reference:</i> See section 3 of <a href="#">chapter 7</a>.</p>
14	<p>Any other necessary documents (see section 6 of <a href="#">chapter 5</a>).</p>



## 2. IRRRL Made to Refinance a Delinquent Loan

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**Change Date**

April 10, 2009, Change 11

- This section has been changed to update hyperlinks and to make minor grammatical edits.
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**a. Prior Approval Submission**

Any IRRRL made to refinance a loan that will be 30 days or more past due as of the date of closing, must be submitted for prior approval.

The lender must first obtain sufficient information and perform sufficient analysis to determine that:

- the cause of the delinquency has been resolved, and
- the veteran is willing and able to make the proposed loan payments.

Submit a written proposal to VA which contains the following information:

<b>Item</b>	<b>Information</b>
1	The full name of the veteran and all other parties obligated on the prior loan and to be obligated on the new loan.
2	The VA loan number and month and year of origination of the loan to be refinanced.
3	The name and address of the lender proposing to make the loan.
4	The approximate proposed loan amount, interest rate, and term for the new loan versus the old loan.
5	Discount to be charged, expressed as a percentage of the loan and a dollar amount.
6	Statement signed by the veteran acknowledging the effect of the refinancing loan on the veteran's loan payments and interest rate. <ul style="list-style-type: none"><li>• The statement must show the interest rate and monthly payments for the new loan versus that for the old loan.</li><li>• The statement must also indicate how long it will take to recoup ALL closing costs (both those included in the loan and those paid outside of closing).</li></ul>

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## 2. IRRRL Made to Refinance a Delinquent Loan, Continued

### a. Prior Approval Submission (continued)

Item	Information
7	<p>The appropriate certification concerning occupancy signed by the veteran or the spouse of an active duty servicemember. One of the following must be signed.</p> <p>“I have previously occupied the property securing this loan as my home.”</p> <p style="text-align: center;">_____</p> <p style="text-align: center;">veteran’s signature</p> <p>“While my spouse was on active duty and unable to occupy the property securing this loan, I occupied the property securing this loan as my home.”</p> <p style="text-align: center;">_____</p> <p style="text-align: center;">spouse’s signature</p>
8	<p><a href="#">VA Form 26-8923</a>, Interest Rate Reduction Refinancing Loan Worksheet.</p>
9	<p><a href="#">VA Form 26-8937</a>, Verification of VA Benefits (if applicable).</p>
10	<p>Certificate of Eligibility, or, if unavailable, a request for a duplicate certificate <a href="#">VA Form 26-1880</a>, Request for a Certificate of Eligibility.</p>
11	<p>Uniform Residential Loan Application (URLA).</p>
12	<p>Explanation of the reason(s) for the loan delinquency, including appropriate documentation to verify the cause.</p>
13	<p>Documentation to verify that the cause of the delinquency has been corrected.</p>
14	<p>Credit report (in-file credit report is acceptable).</p>
15	<p>Current pay stub and telephone verification of current employment.</p>
16	<p><a href="#">VA Form 26-6393</a>, Loan Analysis.</p>
17	<p>Documentation of the cost of energy efficiency improvements to be included in the loan, if known. See section 3 of <a href="#">chapter 7</a>. For cash reimbursement of the veteran, the improvements must be completed within the 90 days immediately preceding the date of the loan.</p>

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## 2. IRRRL Made to Refinance a Delinquent Loan, Continued

### b. What Happens Next?

VA will inform the lender of its decision.

The lender may close the loan in reliance on a VA-issued Certificate of Commitment.

**Reference:** See section 4 of [chapter 5](#) for further information on the Certificate of Commitment.

### c. How to Report Loan Closing and Request Guaranty

A prior approval IRRRL must be reported (such as, all documentation submitted) to VA within 60 days of closing. A lender that fails to meet this time limit must provide a written explanation. (see order #8).

To report an IRRRL, submit the following documents to VA in the order listed.

Order	Document
1	Lender's cover or transmittal letter (if used).
2	<a href="#">VA Form 26-0286</a> , VA Loan Summary Sheet.
3	Funding fee receipt. See section 8 of <a href="#">chapter 8</a> for information on exemptions.
4	If the loan amount has increased beyond the amount indicated on the Certificate of Commitment, an updated <a href="#">VA Form 26-8923</a> , Interest Rate Reduction Refinancing Loan Worksheet.
5	<a href="#">VA Form 26-1820</a> , Report and Certification of Loan Disbursement.
6	<a href="#">HUD-1</a> , settlement statement.
7	<a href="#">VA Form 26-0503</a> , Federal Collection Policy Notice.
8	If loan is submitted more than 60 days after loan closing, a statement signed by a corporate officer of the lender which identifies the loan and provides the specific reason(s) why the loan was not submitted on time.
9	Any other necessary documents. (See section 6 of <a href="#">chapter 5</a> .)

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## **2. IRRRL Made to Refinance a Delinquent Loan, Continued**

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**d. Treatment of  
Late Payments  
and Late  
Charges**

All late payments and late charges (and reasonable costs if legal action to terminate the old loan has commenced) can be rolled into the new loan.

If the amount of late payments, late charges and legal costs is significant, the proposed monthly payment will be adversely impacted. Carefully analyze whether the IRRRL would benefit the veteran and not create unacceptable risk to the Government in light of the new monthly payment.

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### 3. Cash-Out Refinancing Loans

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<b>Change Date</b>	April 10, 2009, Change 11 <ul style="list-style-type: none"><li>• Subsections a, b, and c were changed to remove references to a 90 percent limit on refinancing. P.L. 110-389, Veterans' Benefits Improvement Act of 2008, signed October 10, 2008, removed this limit.</li><li>• Subsection b has been changed to state that refinances can now be made up to 100 percent of value, plus funding fee and any energy efficient improvements.</li><li>• Subsection d has been changed to remove the \$36,000 maximum guaranty limit on most refinance loans.</li><li>• This section has been updated to correct hyperlinks and to make minor grammatical edits.</li></ul>
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<b>a. What is a VA Cash-Out Refinancing Loan?</b>	<p>A cash-out refinancing loan is a VA-guaranteed loan that refinances any type of lien or liens against the secured property. The liens to be paid off may be:</p> <ul style="list-style-type: none"><li>• current or delinquent, and</li><li>• from any source, such as<ul style="list-style-type: none"><li>– tax or judgment liens, or</li><li>– VA, FHA, or conventional mortgages.</li></ul></li></ul>
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Loan proceeds beyond the amount needed to pay off the lien(s) may be taken as cash by the borrower for any purpose acceptable to the lender.

The loan must be secured by a first lien on the property.

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<b>b. Maximum Loan Amount</b>	The maximum loan amount is 100 percent of the appraised value, plus the cost of any energy efficiency improvements, plus the VA funding fee.
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<b>c. What Fees and Charges Can be Included in the Loan?</b>	Cash proceeds from the loan may be used to pay allowable fees and charges and discount points.
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### 3. Cash-Out Refinancing Loans, Continued

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**d. Maximum Guaranty** The maximum guaranty for regular (i.e., “cash-out”) refinancing loans is the same as the maximum guaranty for purchase loans. Prior to October 10, 2008, the maximum guaranty had been limited to \$36,000. However, guaranty on this type of loan is now computed the same as for purchases (i.e., can vary depending on location).

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**e. Veteran’s Entitlement** The veteran must have sufficient available entitlement for the loan. If an existing VA loan on the same property will be paid off by the refinancing loan, the entitlement used for that existing loan can be restored for purposes of obtaining the new loan.

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**f. Occupancy** The veteran must certify that he or she intends to personally occupy the property as his or her home.

*Reference:* See section 5 of [chapter 3](#) for details.

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**g. Automatic or Prior Approval Processing** Only lenders with authority to close loans automatically may close cash-out refinancing loans automatically. All others must submit these loans for prior approval by VA.

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**h. Lender Procedures** Loan processing procedures are virtually the same as for non-refinancing loans. A full appraisal, credit information, and underwriting are required. Generally, follow the procedures described in [chapter 5](#) of this handbook.

To report loan closing, submit all of the documents required for non-refinancing loans (see [chapter 5](#)) plus a statement signed by the veteran which shows:

- the cash proceeds paid,
  - an itemization of the debts paid from loan proceeds, and
  - the identification of those debts secured by liens of record.
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## 4. Quick Reference Table for IRRRLs Versus Cash-Out Refinancing Loans

**Change Date** April 10, 2009, Change 11

- This section has been updated to remove references to a 90 percent limit and a maximum guaranty on refinance loans, and to make minor grammatical edits.

**a. Table IRRRL versus Cash-out** The following table provides a quick reference for IRRRL loans versus cash-out refinancing loans:

<b>Feature</b>	<b>IRRRL</b>	<b>Cash-out Refinancing</b>
Purpose	To refinance an existing VA loan at a lower interest rate	To pay off lien(s) of any type - can also provide cash to borrower
Interest Rate	Rate must be lower than on existing VA loan (unless existing loan is an ARM)	Any negotiated rate
Monthly Payment Amount	Payment must be lower than that on an existing VA loan (unless the ARM is being refinanced, a term is shortened, or energy efficiency improvements are being included)	No requirement
Discount Points	Reasonable points can be paid - only two of these points can be included in the loan amount	Reasonable points can be paid - if paid from loan proceeds
Maximum Loan	Existing VA loan balance, plus allowable fees and charges, plus up to two discount points, plus the cost of any energy efficiency improvements, plus the VA funding fee	100 percent of the reasonable value of the property indicated on the NOV, plus the cost of any energy efficiency improvements, plus the VA funding fee
Maximum Guaranty	Guaranty is at least 25 percent in all cases (See section 1, subsection h of this chapter)	Maximum guaranty is the same as for purchases

*Continued on next page*



## 4. Quick Reference Table for IRRRLs Versus Cash-Out Refinancing Loans, Continued

a. Table IRRRL versus Cash-out (continued)

Feature	IRRRL	Cash-out Refinancing
Entitlement	Veteran re-uses the entitlement used on the existing VA loan - the IRRRL does <b>not</b> impact the amount of entitlement the veteran has in use	Must have sufficient available entitlement - if existing VA loan on the same property is being refinanced, entitlement can be restored for the refinance
Fees and Charges in the Loan	All allowable fees and charges, including up to two discount points, may be included in the loan	Allowable fees and charges and points may be paid from the loan proceeds
Cash to Borrower	Not permitted	Borrower can receive cash for any purposes acceptable to the lender
Lien/Ownership	Must be secured by first lien - veteran must own property	Must be secured by first lien - veteran must own property
Refinance of Other Liens	Cannot refinance other liens - can only refinance the existing VA loan	Can refinance any type of lien(s)
Maximum Loan Term	Existing VA loan term plus 10 years, not to exceed 30 years + 32 days	30 years + 32 days
Occupancy	Veteran or spouse of an active duty servicemember must certify to prior occupancy	Veteran or spouse of an active duty servicemember must certify as to intent to occupy
Appraisal	No appraisal is required	Appraisal is required
Credit Underwriting	No underwriting is required except in certain cases	Full credit information and underwriting are always required
Automatic Authority	All lenders can close IRRRLs automatically, except if the loan being refinanced loan is 30 days or more past due, prior approval is always required	Only lenders with automatic authority can close these loans automatically
Law	<a href="#">38 U.S.C. 3710(a)(8)</a>	<a href="#">38 U.S.C. 3710(a)(5)</a>

## 5. Other Refinancing Loans

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<b>Change Date</b>	April 10, 2009, Change 11 <ul style="list-style-type: none"><li>• Subsection c has been updated to note that maximum guaranty on these types of refinancing loans is limited to \$36,000.</li><li>• This section has been updated to make minor grammatical edits.</li></ul>
<b>a. What Are They?</b>	Other refinancing loans are: <ul style="list-style-type: none"><li>• construction loans,</li><li>• installment land sale contracts, and</li><li>• loans assumed by veterans at interest rates higher than that for the proposed refinance.</li></ul>
<b>b. Maximum Loan</b>	These loans may not exceed the lesser of: <ul style="list-style-type: none"><li>• the VA reasonable value plus the VA funding fee, or</li><li>• the sum of the outstanding balance of the loan to be refinanced plus allowable closing costs (including the funding fee) and discounts.</li></ul> <p>The cost of energy efficiency improvements can also be added to the loan.</p>
<b>c. Maximum Guaranty</b>	The maximum guaranty for refinancing loans, noted in subsection a, is \$36,000.

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