

## Announcement # 19-14

**Date:** February 13, 2019

**Topic:** VA Circular 26-18-30 Updates to VA Cash-Out Transactions

VA has divided cash-out transactions into two separate categories, Type I and Type II.

Effective with applications taken on or after February 15, 2019, PennyMac is aligning with VA's updates in Circular 26-18-30. Highlights of the announcement are below.

### Requirements Applicable to ALL VA Cash-Out

In addition to requirements specific to Type I and Type II, all VA cash-out refinances must meet the following requirements:

- Max LTV of 100%, including VA funding fee
- LTV is calculated by dividing the total loan amount by the reasonable value on the NOV
- Net Tangible Benefit Test (NTB) required. Must satisfy one of the following:
  - The new loan eliminates monthly mortgage insurance, whether public or private, or monthly guarantee insurance;
  - The term of the new loan is shorter than the term of the loan being refinanced;
  - The interest rate on the new loan is lower than the interest rate on the loan being refinanced;
  - The payment on the new loan is lower than the payment on the loan being refinanced;
  - The new loan results in an increase in the borrower's monthly residual income;
  - The new loan refinances an interim loan to construct, alter, or repair the home;
  - The new loan amount is equal to or less than 90 percent of the reasonable value of the home, or;
  - The new loan refinances an adjustable rate loan to a fixed rate loan.
- A comparison of key loan characteristics or terms for the existing and refinancing loan, including the below. The comparison must be provided to the borrower in accordance with VA requirements.
  - Refinancing loan amount vs the payoff amount of the loan being refinanced
  - Loan type (i.e. fixed, adjustable) of the refinancing loan vs the loan being refinanced
  - Interest rate of the refinancing loan vs the loan being refinanced
  - Loan term of the refinancing loan vs the loan being refinanced
  - 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



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- LTV of the refinancing loan vs the loan being refinanced
- An estimate of the home equity being removed from the home as a result of the refinance and explain how the removal of home equity may affect the veteran.
- NTB, loan term comparison, and equity removal must be provided to the borrower twice:
  - Three business days from loan application, and
  - At loan closing. Lenders must include comparison document in file at time of delivery to PennyMac.
- Discount points paid, if any, must be reasonable
- Loan must otherwise be eligible for guarantee

### Type I Cash-out Refinance

Type I is defined as a refinancing loan in which the loan amount, including any financed VA funding fee, does not exceed the payoff amount of the loan being refinanced. In addition to the requirements applicable to all VA cash-out, Type I refinances must meet the following:

- The new loan amount is less than or equal to the payoff amount of the loan being refinanced
- There must be a 36 month recoupment from the date of loan closing
- Recoupment must be calculated from lower regular monthly principal and interest payment
- New note date is the later of:
  - 210 days from the first payment date made or;
  - The date the 6<sup>th</sup> monthly payment is made
- Interest rate reduction
  - Fixed to Fixed requires a 0.5% reduction
  - Fixed to ARM requires 2.0% rate reduction

### Type II Cash-out Refinance

Type II is defined as a refinancing loan in which the loan amount, including any financed funding fee, exceeds the payoff amount of the loan being refinanced. In addition to the requirements applicable to all VA cash-out, Type II refinances must meet the following:

- New loan amount exceeds the payoff of amount of the loan being refinanced
- New note date is the later of:
  - 210 days from the first payment made date or
  - The date the 6<sup>th</sup> monthly payment is made

Due to the extensive nature of the changes, PennyMac recommends Lenders review the Federal Register Vol 83 no 241, Circular 26-18-30, and Circular 26-18-30 Change 1 in their entirety.

**Please contact your Sales Representative with any questions.**