



November 9, 2018

17744 Preston Road, Suite 200

Dallas, TX 75252

Phone: 972-381-0968

Fax: 972-250-1439

Partners

Thomas E. Black, Jr.¹

Gregory S. Graham²

Shawn P. Black³

Regina M. Uhl⁴ ‡

Senior Lawyers

David F. Dulock

Diane M. Gleason

Associates

Peter B. Idziak³

Daniel S. Engle³

Nick Stevens

Syndy Davis

Margaret Noles

Dora Herran

Of Counsel

David M. Tritter

Calvin C. Mann, Jr.

Retired Partner(s)

Calvin C. Mann, Jr.

¹ Also Licensed in Iowa, New York, and Washington

² Also Licensed in Georgia

³ Also Licensed in New York

⁴ Also Licensed in Kentucky and Illinois

‡ Board Certified- Residential Real Estate Law- Texas Board of Legal Specialization

To: Clients and Friends
From: Peter B. Idziak and David F. Dulock
Subject: VA Changes to Qualified Mortgage Loans

On May 24, 2018, the “Protecting Veterans from Predatory Lending Act” (“VA Act”) was signed into law, effective as of that date, as section 309 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (Public Law 115-174). The VA Act, attached to this memorandum as Exhibit A, supersedes certain elements of the Interim Final Rule (“IFR”) published by VA in the May 9, 2014, *Federal Register* (79 FR 26620, [click here](#)). The IFR established the definition of “qualified mortgage” for VA-guaranteed loans and further classified such loans as having either safe harbor protection or the rebuttable presumption protection, in accordance with the ability to repay provisions in §1026.43 of Regulation Z.

The VA Act established certain minimum seasoning requirements (at least 6 months) and recoupment requirements (36 months or less) on all Interest Rate Reduction Refinance Loans (“IRRRL”) loans. Because of these increased seasoning and recoupment requirements, the VA Act effectively eliminated the category of VA-guaranteed IRRRLs that had been classified as rebuttable presumption qualified mortgages under IFR §36.4300(c)(2). This is because under the VA Act, loans that do not meet these requirements are no longer eligible for the VA guaranty.

In response to the VA Act, on May 25, 2018, VA issued the following policy guidance update in Circular 26-18-13 and its Exhibit A:

- https://benefits.va.gov/HOMELOANS/documents/circulars/26_18_13.pdf
- https://benefits.va.gov/homeloans/documents/circulars/26_18_13_exhibita.pdf

Circular 26-18-13 states that VA-guaranteed loans must meet the requirements of the VA Act and that loan applications taken on or after May 25, 2018, that do not meet the Circular’s requirements will not be eligible for guaranty by VA.

Most recently, on October 9, 2018, VA published a document in the *Federal Register* (83 FR 50506, [click here](#)) that states VA will not finalize the IFR because the IFR does not address the requirements of the VA Act. Instead, VA will restart the rulemaking process in the near future that, when final, will supersede the IFR by revising the VA’s qualified mortgage criteria. However, the document also states that the IFR remains in effect until such future rule is effective and that to the extent the IFR conflicts with or is superseded by the VA Act, the VA Act controls.

Please feel free to call us if you have any questions regarding the above VA changes.

This Memorandum is provided as general information in regard to the subject matter covered, but no representations or warranty of the accuracy or reliability of the content of this information are made or implied. Opinions expressed in this memorandum are those of the author alone. In publishing this information, neither the author nor the law firm of Black, Mann & Graham L.L.P. is engaged in rendering legal services. While this information concerns legal and regulatory matters, it is not legal advice and its use creates no attorney-client relationship or any other basis for reliance on the information. Readers should not place reliance on this information alone, but should seek independent legal advice regarding the law applicable to matters of interest or concern to them. The law firm of Black, Mann & Graham L.L.P. expressly disclaims any obligation to keep the content of this information current or free of errors.

Exhibit A

Public Law 115–174 (May 24, 2018)

SEC. 309. PROTECTING VETERANS FROM PREDATORY LENDING.

(a) PROTECTING VETERANS FROM PREDATORY LENDING.—

(1) IN GENERAL.—Subchapter I of chapter 37 of title 38, United States Code, is amended by adding at the end the following new section:

<< 38 USCA § 3709 >>

§ 3709. Refinancing of housing loans

“(a) FEE RECOUPMENT.—Except as provided in subsection (d) and notwithstanding section 3703 of this title or any other provision of law, a loan to a veteran for a purpose specified in section 3710 of this title that is being refinanced may not be guaranteed or insured under this chapter unless—

“(1) the issuer of the refinanced loan provides the Secretary with a certification of the recoupment period for fees, closing costs, and any expenses (other than taxes, amounts held in escrow, and fees paid under this chapter) that would be incurred by the borrower in the refinancing of the loan;

“(2) all of the fees and incurred costs are scheduled to be recouped on or before the date that is 36 months after the date of loan issuance; and

“(3) the recoupment is calculated through lower regular monthly payments (other than taxes, amounts held in escrow, and fees paid under this chapter) as a result of the refinanced loan.

“(b) NET TANGIBLE BENEFIT TEST.—Except as provided in subsection (d) and notwithstanding section 3703 of this title or any other provision of law, a loan to a veteran for a purpose specified in section 3710 of this title that is refinanced may not be guaranteed or insured under this chapter unless—

“(1) the issuer of the refinanced loan provides the borrower with a net tangible benefit test;

“(2) in a case in which the original loan had a fixed rate mortgage interest rate and the refinanced loan will have a fixed rate mortgage interest rate, the refinanced loan has a mortgage interest rate that is not less than 50 basis points less than the previous loan;

*1349

“(3) in a case in which the original loan had a fixed rate mortgage interest rate and the refinanced loan will have an adjustable rate mortgage interest rate, the refinanced loan has a mortgage interest rate that is not less than 200 basis points less than the previous loan; and

“(4) the lower interest rate is not produced solely from discount points, unless—

“(A) such points are paid at closing; and

“(B) such points are not added to the principal loan amount, unless—

“(i) for discount point amounts that are less than or equal to one discount point, the resulting loan balance after any fees and expenses allows the property with respect to which the loan was issued to maintain a loan to value ratio of 100 percent or less; and

“(ii) for discount point amounts that are greater than one discount point, the resulting loan balance after any fees and expenses allows the property with respect to which the loan was issued to maintain a loan to value ratio of 90 percent or less.

“(c) LOAN SEASONING.—Except as provided in subsection (d) and notwithstanding section 3703 of this title or any other provision of law, a loan to a veteran for a purpose specified in section 3710 of this title that is refinanced may not be guaranteed or insured under this chapter until the date that is the later of—

“(1) the date that is 210 days after the date on which the first monthly payment is made on the loan; and

“(2) the date on which the sixth monthly payment is made on the loan.

“(d) CASH-OUT REFINANCES.—(1) Subsections (a) through (c) shall not apply in a case of a loan refinancing in which the amount of the principal for the new loan to be guaranteed or insured under this chapter is larger than the payoff amount of the refinanced loan.

“(2) Not later than 180 days after the date of the enactment of this section, the Secretary shall promulgate such rules as the Secretary considers appropriate with respect to refinancing described in paragraph (1) to ensure that such refinancing is in the financial interest of the borrower, including rules relating to recoupment, seasoning, and net tangible benefits.”.

<< 38 USCA § 3709 NOTE >>

(2) REGULATIONS.—

(A) IN GENERAL.—In prescribing any regulation to carry out section 3709 of title 38, United States Code, as added by paragraph (1), the Secretary of Veterans Affairs may waive the requirements of sections 551 through 559 of title 5, United States Code, if—

(i) the Secretary determines that urgent or compelling circumstances make compliance with such requirements impracticable or contrary to the public interest;

(ii) the Secretary submits to the Committee on Veterans' Affairs of the Senate and the Committee on Veterans' Affairs of the House of Representatives, and publishes in the Federal Register, notice of such waiver, including a description of the determination made under clause (i); and

(iii) a period of 10 days elapses following the notification under clause (ii).

*1350

(B) PUBLIC NOTICE AND COMMENT.—If a regulation prescribed pursuant to a waiver made under subparagraph (A) is in effect for a period exceeding 1 year, the Secretary shall provide the public an opportunity for notice and comment regarding such regulation.

(C) EFFECTIVE DATE.—This paragraph shall take effect on the date of the enactment of this Act.

(D) TERMINATION DATE.—The authorities under this paragraph shall terminate on the date that is 1 year after the date of the enactment of this Act.

(3) REPORT ON CASH-OUT REFINANCES.—

(A) IN GENERAL.—Not later than 1 year after the date of the enactment of this Act, the Secretary shall, in consultation with the President of the Ginnie Mae, submit to Congress a report on refinancing—

(i) of loans—

(I) made to veterans for purposes specified in section 3710 of title 38, United States Code; and

(II) that were guaranteed or insured under chapter 37 of such title; and

(ii) in which the amount of the principal for the new loan to be guaranteed or insured under such chapter is larger than the payoff amount of the refinanced loan.

(B) CONTENTS.—The report required by subparagraph (A) shall include the following:

(i) An assessment of whether additional requirements, including a net tangible benefit test, fee recoupment period, and loan seasoning requirement, are necessary to ensure that the refinancing described in subparagraph (A) is in the financial interest of the borrower.

(ii) Such recommendations as the Secretary may have for additional legislative or administrative action to ensure that refinancing described in subparagraph (A) is carried out in the financial interest of the borrower.

<< 38 USCA T. 38 pt. III ch. 37 subch. I prec. § 3701 >>

(4) CLERICAL AMENDMENT.—The table of sections at the beginning of chapter 37 of title 38, United States Code, is amended by inserting after the item relating to section 3709 the following new item:

“3709. Refinancing of housing loans.”.

<< 12 USCA § 1721 >>

(b) LOAN SEASONING FOR GINNIE MAE MORTGAGE-BACKED SECURITIES.—Section 306(g)(1) of the National Housing Act (12 U.S.C. 1721(g)(1)) is amended by inserting “The Association may not guarantee the timely payment of principal and interest on a security that is backed by a mortgage insured or guaranteed under chapter 37 of title 38, United States Code, and that was refinanced until the later of the date that is 210 days after the date on which the first monthly payment is made on the mortgage being refinanced and the date on which 6 full monthly payments have been made on the mortgage being refinanced.” after “Act of 1992.”.

(c) REPORT ON LIQUIDITY OF THE DEPARTMENT OF VETERANS AFFAIRS HOUSING LOAN PROGRAM.—

*1351

(1) REPORT.—Not later than 1 year after the date of the enactment of this Act, the Secretary of Housing and Urban Development and the President of the Ginnie Mae shall submit to the appropriate committees of Congress a report on the liquidity of the housing loan program under chapter 37 of title 38, United States Code, in the secondary mortgage market, which shall—

(A) assess the loans provided under that chapter that collateralize mortgage-backed securities that are guaranteed by Ginnie Mae; and

(B) include recommendations for actions that Ginnie Mae should take to ensure that the liquidity of that housing loan program is maintained.

(2) DEFINITIONS.—In this subsection:

(A) APPROPRIATE COMMITTEES OF CONGRESS.—The term “appropriate committees of Congress” means—

(i) the Committee on Veterans' Affairs and the Committee on Banking, Housing, and Urban Affairs of the Senate; and

(ii) the Committee on Veterans' Affairs and the Committee on Financial Services of the House of Representatives.

(B) GINNIE MAE.—The term “Ginnie Mae” means the Government National Mortgage Association.

<< 38 USCA § 3707 NOTE >>

(d) ANNUAL REPORT ON DOCUMENT DISCLOSURE AND CONSUMER EDUCATION.—Not less frequently than once each year, the Secretary of Veterans Affairs shall issue a publicly available report that—

(1) examines, with respect to loans provided to veterans under chapter 37 of title 38, United States Code—

(A) the refinancing of fixed-rate mortgage loans to adjustable rate mortgage loans;

(B) whether veterans are informed of the risks and disclosures associated with that refinancing; and

(C) whether advertising materials for that refinancing are clear and do not contain misleading statements or assertions; and

(2) includes findings based on any complaints received by veterans and on an ongoing assessment of the refinancing market by the Secretary.

[End of Section 309]