

CLARIFICATIONS REGARDING INTEREST RATE REDUCTION REFINANCE LOANS IN MINNESOTA

1. **PURPOSE.** The purpose of this circular is to address the implementation of Minnesota House File No. 1004, which became effective on August 1, 2007. Specifically, this circular will explain that interest rate reduction refinance loans (IRRRLs), if processed in accordance with VA's guidelines, will still be available to veterans in the state of Minnesota.

2. **BACKGROUND.** When House File No. 1004 became effective, Minnesota Statutes 2006, section 58.13, subdivision 1, was amended to state that residential mortgage originators shall not "make, provide, or arrange for a residential mortgage loan without verifying the borrower's reasonable ability to pay..." The new law requires an originator to verify the borrower's income and financial resources with "tax returns, payroll receipts, bank records, or other similarly reliable documents." Though the statute as revised allows for the use of other criteria (as long as they are verified through "reasonably reliable methods and documentation"), it specifically notes that a "statement by the borrower...of the borrower's income and resources is not sufficient to establish the existence of the income or resources when verifying the reasonable ability to pay." Many industry professionals contacted VA upon learning about this change because they believed the documentation required by the new law would prohibit the use of IRRRLs (also known as streamlined refinances).

3. **CLARIFICATION**

a. On October 31, 2007, the Minnesota Attorney General wrote a letter to VA indicating that "VA lenders who rely on and comply with the VA streamline procedures are in compliance with Minn. Stat. Section 58.13, subd. 1(a)(23) because the VA streamline requirements constitute 'other criteria' that establish the borrower's reasonable ability to pay the residential mortgage loan." She went on to note that even though IRRRLs require less documentation and underwriting, that does not mean that VA is unconcerned with the borrower's ability to pay; rather, IRRRLs are structured to ensure reasonable ability to repay by requiring that only original VA loans that are not delinquent can be refinanced without additional analysis.

b. In a November 9, 2007, letter to the VA, the Minnesota Governor concurred with the Attorney General's conclusion and stated affirmatively that "the law permits the mortgage originator to rely on the VA's streamline procedures and loan practices as constituting 'other criteria' for purposes of determining the borrower's reasonable ability to repay."

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4. **QUESTIONS**. Please e-mail any questions regarding this circular to William White, Supervisory Loan Specialist, at william.white1@va.gov.

5. **RESCISSION**. This circular is rescinded January 1, 2009.

By Direction of the Under Secretary for Benefits

Judith A. Caden, Director
Loan Guaranty Service

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