IRRRL Facts for Veterans

IRRRL stands for Interest Rate Reduction Refinancing Loan. You may see it referred to as a "Streamline" or a "VA to VA." Except when refinancing an existing VA guaranteed adjustable rate mortgage (ARM) to a fixed rate, it must result in a lower interest rate. When refinancing from an existing VA ARM loan to a fixed rate, the interest rate may increase.

No appraisal or credit underwriting package is required by VA. You should be aware, however, that lenders may require an appraisal and credit report anyway.

A certificate of eligibility is not required. Your lender may use our e-mail confirmation procedure for interest rate reduction refinance in lieu of a certificate of eligibility.

An IRRRL may be done with "no money out of pocket" by including all costs in the new loan or by making the new loan at an interest rate high enough to enable the lender to pay the costs. (Remember: The interest rate on the new loan must be lower than the rate on the old loan unless you refinance an ARM to a fixed rate mortgage).

No lender is required to make you an IRRRL, however, any lender of your choice may process your application for an IRRRL. While it might be the best place to start shopping for an IRRRL, you do not have to go to the lender you make your payments to now or to the lender from whom you originally obtained your VA Loan.

Veterans are strongly urged to contact several lenders. There may be big differences in the terms offered by the various lenders you contact.

Some lenders may contact you suggesting that they are the only lender with authority to make IRRRLs. Remember - Any lender may make you an IRRRL.

Some lenders may say that VA requires certain closing costs to be charged and included in the loan. Remember - The only cost required by VA is a funding fee of one-half of one percent of the loan amount which may be paid in cash or included in the loan.

You must NOT receive any cash from the loan proceeds.

An IRRRL can be done only if you have already used your eligibility for a VA loan on the property you intend to refinance. It must be a VA to VA refinance, and it will reuse the entitlement you originally used. You may have used your entitlement by obtaining a VA loan when you bought your house, or by substituting your eligibility for that of the seller, if you assumed the loan. If you have your Certificate of Eligibility, take it to the lender to show the prior use of your entitlement.

The occupancy requirement for an IRRRL is different from other VA loans. When you originally got your VA loan, you certified that you occupied or intended to occupy the home. For an IRRRL you need only certify that you previously occupied it.

The loan may not exceed the sum of the outstanding balance on the existing VA loan, plus allowable fees and closing costs, including funding fee and up to 2 discount points. You may also add up to $6,000 of energy efficiency improvements into the loan.

NOTE: Adding all of these items into your loan may result in a situation in which you owe more than the fair market value of the house, and will reduce the benefit of refinancing since your payment will not be lowered as much as it could be. Also, you could have difficulty selling the house for enough to pay off your loan balance.

Some lenders offer IRRRLs as an opportunity to reduce the term of your loan from 30 years to 15 years. While this can save you a lot of money in interest over the life of the loan, if the reduction in the interest rate is not at least one percent (two percent is better) and lots of new loan costs are rolled into the new loan, you may see a very large increase in your monthly payment.

Beware: It could be a bigger increase than you can afford

No loan other than the existing VA loan may be paid from the proceeds of an IRRRL. If you have a second mortgage, the holder must agree to subordinate that lien so that your new VA loan will be a first mortgage.