

Loan Repayment Relief for Borrowers Affected by COVID-19

1. Purpose. The Department of Veterans Affairs (VA) remains firmly committed to assisting VA-guaranteed loan borrowers who experience financial hardship due to the COVID-19 pandemic. Through this Circular, VA is providing an updated summary of the home retention options and alternatives to foreclosure that servicers should utilize to help borrowers affected by the pandemic. This guidance is necessary given the extended duration of the pandemic, recent Presidential actions, and developments in VA's program.

2. Home Retention Options and Alternatives to Foreclosure.

a. When evaluating a borrower's case, servicers should consider all home retention options and work with the borrower to select the option that is in the borrower's best financial interest. Where home retention options are not feasible, servicers should consider alternatives to foreclosure (i.e. a compromise sale or a deed in lieu of foreclosure). VA is reminding servicers that Chapter 5 of the VA Servicer Handbook M26-4 provides guidance relating to VA's longstanding home retention options and alternatives to foreclosure. Servicers can utilize these options and alternatives to assist borrowers who are affected by the pandemic.¹ Regardless of any option or alternative chosen, servicers should not require a borrower to make a lump sum payment to bring the loan current.²

b. On September 14, 2020, VA provided guidance stating that servicers could also utilize a novel home retention option (that is, loan deferment), to assist borrowers who invoked loan forbearance under section 4022 of the CARES Act (Pub. L. 116-136). Through this Circular, servicers now have the flexibility to offer loan deferment in cases where a borrower missed one or more payments because of the pandemic, regardless of whether such a payment was subject to a CARES Act forbearance. To offer loan deferment, the servicer must defer payment of the total amount of missed payments (principal, interest, taxes, and insurance) to the loan maturity date or until a borrower refinances the loan, transfers the property, or otherwise pays off the loan, whichever occurs first. Servicers cannot charge any added costs, fees, or interest to the borrower. Servicers cannot impose any penalty for the borrower's early payment of the deferred amount. Servicers can only utilize the loan deferment option in cases where the borrower is able to return to normal loan repayment under the loan contract. For VA's purposes, the servicer does not need and should not enter into a modification agreement that alters the terms of the existing loan for the purposes of a loan deferment option. In consideration of the COVID-19 national emergency and to relieve undue prejudice to a debtor, holder, or other person, for the purpose of providing this loan deferment option, VA is temporarily waiving the requirement

¹ Regarding VA's longstanding loan modification options relating to disasters (that is, VA Disaster Modification and Disaster Extend Modification) servicers can utilize such options to assist borrowers affected by the pandemic if the modification is made not later than the date that is 18 months after the date on which the COVID-19 national emergency ends.

² This requirement should not be construed as prohibiting a servicer from offering a loan deferment option under section 2.b. of this Circular.

that a final loan installment payment shall not be in excess of two times the average of the preceding installments.³

c. Recently, VA published a Proposed Rule setting forth VA's intention to establish a temporary COVID-19 Veterans Assistance Partial Claim Payment program.⁴ Under this proposed program, servicers would have another option to assist borrowers affected by the pandemic. VA is reminding servicers to monitor for any updates relating to this rule.

3. Contact Information. Questions about this Circular can be sent to valerihelpdesk.vbaco@va.gov.

4. Rescission. This Circular is rescinded April 1, 2022.

By Direction of the Under Secretary for Benefits

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³ See 38 C.F.R. §§ 36.4338(a); 36.4310(a).

⁴ See 85 FR 79142 (Dec. 9, 2020).