Veterans Benefits Administration
Department of Veterans Affairs
Washington, DC 20420

Circular 26-11-1
January 6, 2011

RELOCATION ASSISTANCE FOR VA BORROWERS

1. Purpose. This circular provides authority and instructions for mortgage servicers to pay relocation assistance to borrowers participating in two different loss mitigation options: (1) a deed-in-lieu of foreclosure (DIL); or (2) a short sale with VA compromise claim.

2. Background. VA has a longstanding policy of encouraging servicers to work with veteran borrowers to explore all reasonable options to help them retain their homes, or when that is not feasible, to mitigate losses by pursuing alternatives to foreclosure. For over 15 years, VA has paid incentives to servicers successfully completing alternatives to foreclosure, and beginning in 2008, VA started paying incentives to servicers for successful repayment plans, forbearance agreements, and loan modifications. Recently, other incentives have been developed in the mortgage servicing industry to help encourage participation by homeowners in completing loss mitigation options. Last year, as part of the President's Making Homes Affordable program, the Treasury Department announced the Home Affordable Foreclosure Alternatives (HAFA) program that provides an incentive to a borrower relocating as a result of a short sale or DIL. The incentive provides funds for a homeowner experiencing financial difficulties to more easily identify and move to suitable housing. In the case of a DIL, it also expedites preparation of the former home for resale because the borrower will be able to move out faster and will leave the home in better condition in return for the assistance.

3. VA Relocation Assistance. Effective immediately, VA is authorizing servicers to advance $1,500 in relocation assistance to borrower occupants who complete a short sale with a VA compromise claim or who execute a DIL. VA will treat this as a reimbursable expense that may be included as a part of the eligible indebtedness on the basic claim event in VALERI; it will not be considered as proceeds to the owner from a short sale of the property, which is prohibited. The amount of the indebtedness reimbursable on a claim after crediting it with the net value of the property (or the short sale proceeds, if larger) is limited to the maximum guaranty on the loan plus the cost of liquidation appraisal(s). The servicer must waive any amount on the loan not covered by the sum of the VA guaranty claim amount and the greater of the net value or sale proceeds.

4. Procedures. VA regulations require all servicers to establish a system for servicing delinquent loans which ensures that prompt action is taken to collect amounts due, to minimize the number of loans in a default status, and to pursue alternatives to foreclosure (Title 38, Code of Federal Regulations, section 36.4350(f)). VA requires that servicers first consider home retention alternatives pursuant to VA Circular 26-10-6, "REVISED VA MAKING HOME AFFORDABLE PROGRAM," and then foreclosure alternatives. Servicers may process VA DILs and short sales in the same manner as today; however, servicers may find it beneficial to replicate a number of the HAFA provisions that exceed VA's procedures. This could include suspension of foreclosure action while reviewing cases for DILs or short sales, and especially while waiting a reasonable period for return of completed documentation on cases that appear to offer substantial savings by avoiding foreclosure.

5. Documentation. VA expects servicers to proactively notify eligible borrowers of the availability of foreclosure alternatives, and to encourage completion of a short sale or DIL by providing the homeowner a written agreement describing the requirements for receipt of a relocation incentive. In the case of a DIL, the agreement must specify that the property will be unencumbered by other liens or restrictions on title, it will be kept in good and safe condition, and it will be left ready for sale in “broom clean” condition (i.e., clear of all personal belongings and reasonably clean) upon the homeowner’s departure.

6. Payments. In a short sale transaction, the servicer must instruct the settlement agent to pay the borrower from sale proceeds at the same time that all other payments, including the payoff to the servicer, are disbursed by the settlement agent. The amount paid to the borrower must appear on the HUD-1 Settlement Statement. On a DIL with a formal closing, the relocation assistance of $1,500 must be shown on the HUD-1 Settlement Statement, and it must be paid to the borrower if the property is vacant and has been inspected by the servicer’s agent; otherwise, the servicer must mail a check to the borrower within 5 business days of vacancy and delivery of keys to the servicer or the servicer’s agent. If there is no formal closing, then the servicer must mail a check to the borrower within 5 business days from the later of the borrower’s execution of the deed or the borrower’s vacancy and delivery of keys to the servicer or servicer’s agent.

7. Benefits of Relocation Assistance to Servicers and Veterans. Relocation assistance can provide necessary funds to conduct a move or pay for lodging for borrowers who are faced with the imminent loss of their home. For servicers, the transfer of ownership via DIL or short sale is typically shorter than a foreclosure time period, and the property is left in better condition via DIL, which preserves the condition and value of the property by minimizing the time it is vacant and subject to vandalism and deterioration. In addition, these options generally provide a substantially better outcome than a foreclosure sale for borrowers, investors, and communities.

8. Questions. If you are a veteran with questions about your loan, please call our toll-free number, (877) 827-3702, to reach the nearest trained VA Loan Technician who can counsel you about your situation. Any veterans or servicemembers who feel they may be facing homelessness as a result of losing their home can call (877) 4AID-VET (877-424-3838) or go to http://www1.va.gov/HOMELESS/NationalCallCenter.asp to receive immediate VA assistance.

9. Rescission: This circular is rescinded January 1, 2014.

By Direction of the Under Secretary for Benefits

Richard Fyne, Acting Director
Loan Guaranty Service

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