

## **Interest Rate on Loan Modifications with a Trial Payment Plan**

1. Purpose. This Circular provides guidance to mortgage loan servicers regarding the interest rate for loan modifications with a Trial Modification, also known as a Trial Payment Plan (TPP), on Department of Veterans Affairs' (VA) guaranteed home loans.

2. Background. Loan modifications allow servicers to extend permanent payment relief to impacted borrowers that are behind on their mortgage payments. A TPP allows borrowers to demonstrate their ability to make the modified monthly mortgage payments, prior to the completion of a permanent modification. VA regulation 38 CFR 36.4315(a)(8)(i) requires mortgage servicers to modify the loan at a rate that does not exceed the most recent Freddie Mac Weekly Primary Mortgage Market Survey Rate for 30-year fixed-rate conforming mortgages, rounded to the nearest one-eighth of a percent (0.125%), as of the date the Modification Agreement is approved, plus 50 basis points. In the past, VA has used the date of the final modification approval, after the completion of the trial payments, to calculate the rate. If servicers preferred to calculate the interest rate at the start of the TPP, they had the option to request Pre-Approval in the VA Loan Electronic Interface (VALERI) application to lock in the rate.

3. Guidance. Below is the guidance for determining the interest rate for modifications with TPPs.

- a. Servicers will consider the date the TPP has been approved as the date the Modification Agreement is approved.
- b. Servicers will no longer use a Pre-Approval request to lock in the market interest rate for modifications with a TPP.
- c. In cases where the interest rate has reduced by 1% or more between the time of the TPP approval and the final scheduled payment on the TPP, the servicer must recalculate the interest rate using the reduced rate at the time of the final scheduled payment.
- d. There is no impact to modifications without a TPP. The interest rate will continue to be calculated based on modification agreement approval date.

4. Additional Guidance for Regional Loan Centers. To ensure servicers are reviewing the market rate at the time of the final TPP payment, Regional Loan Centers (RLCs) will review the interest rate at the time of the Non-Routine and Routine Incentive processes. If the interest rate appears to have dropped by 1% or more between the approval of the TPP and the estimated date of the final scheduled payment, RLCs must notify the VALERI Helpdesk at [VALERIELPDESK.VBACO@va.gov](mailto:VALERIELPDESK.VBACO@va.gov) to flag the case for Post Audit review.

5. Effective: This guidance is effective September 1, 2020.

6. Rescission: This Circular is rescinded August 1, 2021.

By Direction of the Under Secretary for Benefits

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