

Department of Veterans Affairs Affordable Modification

1. Purpose. This Circular provides guidance and instructions for modifying Department of Veterans Affairs (VA) guaranteed loans, which replaces previous guidance issued regarding the VA Home Affordable Modification Program (HAMP). VA-guaranteed loans should be considered for a VA Affordable Modification (VAAM) when traditional home retention options are not feasible.

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. In an effort to help homeowners avoid foreclosure, VA introduced the VA HAMP-Style Modification in accordance with the Making Home Affordable (MHA) program.

3. Guidance. A VAAM offers a new monthly mortgage payment (including principal, interest, property taxes, insurance, and condominium or homeowners' association fees (PITIA)) no greater than 31 percent of the borrower's monthly gross income. The VAAM must bear a fixed-interest rate. The rate must not exceed the most recent Freddie Mac Weekly Primary Mortgage Market Survey Rate for 30-year fixed rate conforming mortgages (US Average), rounded to the nearest one-eighth of one percent (0.125 percent), as of the date the modification agreement is approved, plus 50 basis points. In addition, the rate cannot be more than one percent higher than the existing interest rate on the loan, as of the last paid installment. The servicer must evaluate the loan for a VAAM prior to determining the loan is insoluble.

a. VA allows servicers to use a VAAM on any VA-guaranteed loan, subject to the requirements in 38 C.F.R. 36.4315, and preapproval must be obtained for any regulatory deviation. The VA guaranty amount on a VAAM will be calculated pursuant to 38 C.F.R. 36.4315(a)(13) which could impact the maximum guaranty amount on the modified loan.

4. Servicer Evaluates Loan for VA Affordable Modification. If the servicer is unable to contact the borrower to obtain financial information, or if the borrower declined to provide financial information, then evaluation for a VAAM style modification cannot be completed. If verified financial information indicates insufficient income to justify a traditional loss mitigation option, then the servicer will use the financial information obtained to evaluate the possibility of a VAAM. A VAAM will use a mortgage debt to income standard rather than VA's traditional residual income method found in 38 C.F.R. 36.4340.

5. Determination of VA Affordable Modification Terms. Servicers will calculate the estimated new principal balance in accordance with 38 C.F.R. 36.4315(a)(10) with respect to allowable costs that may be included in the modified indebtedness.

a. Servicers may reduce the interest rate and extend the terms to achieve the target monthly

PITIA payment. If principal deferment is necessary to achieve the target monthly mortgage payment, it must be non-interest bearing and either paid, or refinanced by the maturity date. If none of these measures result in the target monthly PITIA payment, then servicers must pursue alternatives to foreclosure.

b. Standard VA servicer incentives apply.

6. Effective Date of VA Affordable Modification. The VAAM option must be implemented on or before October 1, 2017.

7. Rescission: This Circular is rescinded April 1, 2019.

By Direction of the Under Secretary for Benefits

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