

## Updated Disaster Modification Guidance

1. Purpose. This Circular provides guidance regarding Department of Veterans Affairs (VA) new Disaster Loan Modification option, and describes updated measures mortgagees may employ to provide relief. Mortgage servicers, and borrowers alike should continue to review VA's Guidance on Natural Disasters to ensure Veterans receive the assistance they need.

([http://www.benefits.va.gov/homeloans/documents/docs/va\\_policy\\_regarding\\_natural\\_disasters.pdf](http://www.benefits.va.gov/homeloans/documents/docs/va_policy_regarding_natural_disasters.pdf)).

2. Background. The VA Disaster Loan Modification allows servicers to extend permanent payment relief to impacted delinquent borrowers when the borrower has not submitted a complete loss mitigation application. All impacted borrowers should have an opportunity to be considered for a VA Disaster Loan Modification as long as the eligibility requirements are met. Servicer evaluation of the borrower's financial information was replaced by a three-month trial payment plan (TPP). Pre-approval was automatically granted for 38 C.F.R. 36.4315(a)(3) requiring borrower's creditworthiness to be evaluated under the criteria specified in 38 C.F.R. 36.4340. Servicers are encouraged to continue VA Disaster Loan Modification Solicitation efforts throughout the delinquency, and the foreclosure process up to 12-months after the federally-declared disaster. Servicers should refer to VA Servicer Handbook, M26-4, Chapter 21, for specific eligibility requirements, and additional guidance. ([https://www.benefits.va.gov/WARMS/M26\\_4.asp](https://www.benefits.va.gov/WARMS/M26_4.asp)).

3. New Disaster Loan Modification Option. Servicers have the choice, but are not required to offer a VA Disaster Loan Modification to delinquent borrowers impacted by a disaster without the three-month TPP requirement. A permanent modification must meet the following terms to be eligible for execution without the three-month TPP. The term of the loan is extended equal to the number of months the loan is delinquent. For example, if the loan is four-months delinquent, the loan term may only be extended by four months. The loan must have been current at the time of the disaster that caused the delinquency. The servicer waives the delinquent interest accrued on the loan as a result of the delinquency. The liability of the Secretary will not be increased when servicers waive the delinquent interest allowing for the modification to be completed without a TPP. The limit of the term extension is 12-months without prior approval from VA. The desired result is that Veteran borrowers are able to resume the same regular monthly installments without feeling as though they have been financially penalized due to a disaster.

A three month TPP will still be required for all Disaster Loan Modifications that do not forgive the delinquent interest.

VA Disaster Loan Modifications are subject to the conditions outlined in VA Servicer Handbook, M26-4, Chapter 21. Servicer evaluation of the borrower's financial information is not required. Pre-approval is automatically granted for 38 C.F.R. 36.4315(a)(3) requiring borrower's creditworthiness to be evaluated under the criteria specified in 38 C.F.R. 36.4340. The servicer must send a VA Disaster Modification agreement to the borrower for signature,

and return the agreement. The servicer may spread any escrow account shortages over a 5 year (60 month) period. Servicers are encouraged to continue VA Disaster Loan Modification solicitation efforts throughout the delinquency, and the foreclosure process, up to 12 months after the federally-declared disaster. In addition, the servicer may seek pre-approval from VA prior to completion of the VA Disaster Loan Modification for any issues that are outside of the policy guidance provided.

5. Rescission: This Circular is rescinded January 1, 2019.

By Direction of the Under Secretary for Benefits

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