

## **The Effect of Guaranty Claim Payments on Veteran Home Loan Entitlement**

1. Purpose. This Circular provides clarification regarding a Veteran's entitlement when a Department of Veterans Affairs (VA) guaranteed home loan is terminated by foreclosure, compromise sale (short sale), or deed-in-lieu of foreclosure (DIL) and a claim under the guaranty is paid.

2. Background. VA guarantees a portion of the loan by the percentage and dollar amount identified on the VA Loan Guaranty Certificate (LGC). If a loan terminates through foreclosure, short sale, or DIL and results in a loss, VA will pay a claim under guaranty and reimburse the loan servicer for their loss, up to the maximum guaranty amount. If the loan originated prior to January 1, 1990, VA may establish a debt against the Veteran and pursue collection.

3. Guidance. VA no longer establishes debts against Veterans on loans originating on or after January 1, 1990. As specified in Title 38 U.S. Code 3703(e), for loans closed after December 31, 1989, Veterans shall have no liability to VA with respect to the loan for any loss resulting from any default except in the case of fraud, misrepresentation, or bad faith. However, Title 38 U.S. Code 3702 (b)(1)(B), requires VA losses to be reimbursed fully by the Veteran in order to restore full entitlement for the reuse of the VA home loan benefit. The loss only affects the Veteran's entitlement when using the VA Home Loan Guaranty program and does not impact any other VA benefits. Veterans may choose to repay VA to restore their full entitlement or take advantage of any remaining entitlement that may be available.

4. Communication. All communication pertaining to loans originated prior to January 1, 1990, which terminated through foreclosure, short sale, or DIL and resulted in a claim paid under guaranty, can reference an 'established debt' in association with the VA home loan benefit, when the debt has not been waived. All communication pertaining to loans closed on or after January 1, 1990, which terminated through foreclosure, short sale, or DIL and resulted in a claim paid under guaranty, should reference a 'loss' that must be fully reimbursed by the Veteran in order to restore full entitlement. Reference to an 'established debt' in association with these types of loans should not be included in any communication or correspondence unless fraud, misrepresentation, or bad faith has been proven.

5. Rescission: This Circular is rescinded October 1, 2020.

By Direction of the Under Secretary for Benefits

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