

December 12, 2022

John E. Bell, III
Executive Director Loan Guaranty Service
U.S. Department of Veterans Affairs
810 Vermont Avenue, NW
Washington, DC 20420

RE: Veterans Affairs Loan Refund Program

Dear Executive Director Bell:

We write to support VA's expansion of the refund program as discussed in the Housing Policy Council's (HPC) letter dated November 30, 2022.

The dramatic increase in interest rates since the turn of the year has significantly reduced the effectiveness of VA's current loan modification program. As a result, an additional loss mitigation option is needed to help veterans who cannot afford to resume their originally scheduled mortgage payments and are in need of payment relief. The refund program gives VA the latitude to adjust the terms of the mortgage without increasing the note rate to the prevailing mortgage rate, which will allow the program to provide the payment relief to these borrowers that VA's current modification options do not achieve.

We also continue to advocate for restoration of a partial claim program that can be used for borrowers who can resume normal monthly guaranteed loan payments but cannot repay arrearages. For these borrowers, a partial claim program can be applied to arrearages to reinstate the loan to performing status without increasing the below-market note rate to the prevailing, higher mortgage rate.

We agree with HPC that the VA should publish clear and prudent criteria for which loans are eligible for the refund program. Veteran borrowers and the advocates working with them should be able to clearly understand the program rules to know what loans will be considered for a refund. Establishing clear rules helps servicers avoid unnecessary costs and helps borrowers focus on the most appropriate option for their financial situation.

The criteria the VA establishes for using the refund should focus on veteran borrowers facing financial hardships who require material payment relief to remain in their home. Veteran borrowers who lose their homes to foreclosure will face a housing market with sharply higher mortgage rates, house prices, and rents. Payment relief provides the best path for helping veteran borrowers stay in their homes. Criteria based on the value of the borrower's home does not help provide payment relief and should not be part of the refund program.

We agree with most of the suggested criteria included in HPC's letter dated November 30, 2022. Unlike HPC, however, we do not believe servicer participation in the program should be optional. Instead, once VA has established clear rules for the program, servicers should be required to refer eligible loans for a refund.

We suggest that, as it is today, the refund be the last resort in the home retention waterfall and loans be eligible in the event that (1) all other efforts to cure the default have failed or (2) the veteran does not qualify for any workout options offered by the servicer. As a third criteria, veterans who indicate that the lowest available monthly payment offered through alternative home retention options would still be unaffordable should also be evaluated for a refund. While a modest amount of payment reduction delivered by the alternative options may be sufficient to keep some veterans in their home, others will need the more substantial payment relief that only the refund program can provide in the current high interest rate environment.

With respect to foreclosure, the VA should allow borrowers the opportunity to participate in the refund program even if they happen to be within 90 days of a foreclosure sale by allowing for the suspension of sales to permit the borrower to be evaluated for the refund program. Successors in interest should also have the opportunity to apply for the refund. Finally, after a loan is refunded, it should continue to be serviced according to VA standards.

We strongly encourage VA to expand the refund program to assist veteran borrowers who are facing financial hardship. We appreciate VA's engagement with stakeholders and its commitment to veteran borrowers facing financial hardship. We welcome the opportunity to work with you and other stakeholders, including HPC, on how to structure an effective refund program.

Thank you in advance for your consideration of these comments. If you have any questions or wish to discuss further, please contact Kanav Bhagat at kbhagat@housingrpa.com.

Sincerely,

Center for Responsible Lending

CC: Housing Policy Council