



Department of Veterans Affairs
6900 Almeda Road
Houston, Texas 77030-4200
Toll Free 1.888.232.2571
Web Site www.vba.va.gov/houstonrlc.htm

BULLETIN NO. 2006-02
Change - 1

January 19, 2006

TO: ALL SERVICERS AND HOLDERS

**SUBJ: CONTINUED FORBEARANCE ON LOANS AFFECTED BY HURRICANES
KATRINA AND RITA – CHANGE 1**

Purpose

This bulletin requests continued forbearance for VA home loan borrowers affected by the enormity of Hurricanes Katrina and Rita. This change clarifies that VA will consider all appropriate forbearance to be VA-requested for purposes of determining whether or not VA will specify an amount for credit in connection with a termination sale, thereby giving the holder an option to convey property to VA.

Continued Forbearance

VA encourages holders of guaranteed loans to continue to extend every possible forbearance to all borrowers in distress as a result of Hurricanes Katrina and Rita. This includes borrowers within the federally declared disaster areas, as well as borrowers in other areas of the country who have provided information indicating the hurricanes have impacted their income (due to business partner relationships in the disaster areas) or their family expenses (due to provision of assistance to relatives evacuated from the disaster areas).

Difficulty In Case Development

VA recognizes that the scope of the disasters has been such that in many cases in the disaster areas mortgagees have been unable to obtain necessary information about borrower prospects for repairs to homes or resumption of employment income. VA encourages loan holders and servicers to continue efforts to obtain that information on accounts that remain unpaid in the disaster areas, even though initiation of termination action might be the usual response to lack of contact from borrowers on delinquent loans. VA requests this delay in normal processing based on an understanding that conditions are still so unsettled in some parts of the disaster areas that clear information cannot be obtained. When mortgagees document reasonable servicing efforts on loans in disaster areas that result in lack of definitive information, VA will withhold the establishment of cutoff dates under the authority of title 38, Code of Federal Regulations (CFR), section 36.4319(f), that would usually result in initiation of loan termination.

Extended Moratorium On Foreclosure Initiation

VA previously requested a 90-day moratorium from the date of the disasters on the initiation of new foreclosures on all loans affected by these two hurricanes. For loans on properties in areas declared by the Federal Emergency Management Agency (FEMA) as eligible for individual

assistance, that request is hereby extended to February 28, 2006. VA will not establish cutoffs under 38 CFR 36.4319(f) on such loans, and the period of the moratorium will be considered “VA-requested forbearance” for purposes of the no-bid avoidance provisions of 38 CFR 36.4321. While the earlier moratorium included all loans nationwide, VA believes mortgagees should have had sufficient time to develop reasons for default on loans outside the individual assistance areas to ensure that any loans affected by the hurricanes will not be referred for foreclosure, but will receive the forbearance mentioned in paragraphs 2 and 3. Any loan in the individual assistance areas that remains undeveloped after February 28, 2006, should be discussed with the VA Regional Loan Center of jurisdiction.

Special Consideration

Some borrowers may experience their first-ever defaults due to Hurricanes Katrina or Rita, because of difficulty in obtaining insurance adjustments and claim settlements, or other problems in resuming normal life activities following the disruptions from the hurricanes. Holders should consider payment histories and age of loans, and extend unusual forbearance for those borrowers with excellent records who are suddenly in distress due to the disasters. Even borrowers with less than stellar records should be afforded additional opportunities to resolve their issues before considering more serious action. However, for those loans where borrowers have been chronically delinquent and were about to be referred for foreclosure soon after the time the hurricanes hit, it would be appropriate to proceed with termination as soon as property status can be determined and any other issues, such as availability of title records or functionality of the courts, can be resolved.

Other Relief

VA applauds the many servicers who have announced plans to waive late charges on loans affected by the disasters. VA also appreciates the fact that many servicers have suspended derogatory reporting to credit bureaus on loans affected by the disasters. Other servicers are encouraged to do likewise.

Payment Suspensions

VA has learned that some servicers are voluntarily suspending payments for all borrowers affected by the disasters, and even returning payments as directed by Freddie Mac on loans in its portfolio. This can be of great benefit to borrowers who are temporarily out of work, but requires careful handling when deciding when payments should resume. For borrowers who were previously in default and set up on repayment plans, any payments they submit should be applied to their accounts, especially if they were not directly affected by the disasters. Otherwise, they are likely to use the funds for other bills and fall further behind on their home loans.

Determination Of Specified Advice

If a loan affected by these disasters is eventually terminated, VA will calculate the net value and total indebtedness to determine whether or not an amount should be specified in connection with the liquidation sale. Should the initial calculation disclose that the un-guaranteed portion of the loan exceeds the net value of the property, then VA will recalculate the eligible indebtedness only to the time of the applicable disaster. If the resulting indebtedness, less VA’s maximum guaranty, is less than the net value, VA will specify an amount for credit to the indebtedness and thereby give the holder the option of conveying the property to VA. In such a case the claim payable will not be restricted to the date of disaster, but will be subject only to VA’s maximum

guaranty. This procedure will be followed on all loans affected by the disasters, as VA has requested that holders extend appropriate forbearance on all such loans. It will also apply to cases described in paragraph 3, involving delay due to difficulty in contacting borrowers to determine appropriate courses of action.

Advance And Modification Reminders

VA regulation 4313 (title 38, Code of Federal Regulations (CFR), section 36.4313) provides authority for a holder to advance funds for maintenance or repair of a security property. Also, 38 CFR 36.4314 gives authority for a holder to extend or modify a loan, or to recast terms to include an existing loan and an additional proposed loan for repairs. While the authority is limited somewhat, the regulation indicates that prior approval from VA may be sought to modify a loan in a manner other than that specifically stated in the regulations. Holders are encouraged to discuss any possible combinations of advances, repair loans, and/or modifications with the VA Regional Loan Center of jurisdiction.

Rescission: This bulletin is rescinded October 1, 2007.

Questions and Comments

If you have questions or comments concerning this bulletin, please contact Helen Galer, Loan Administration Officer, at 713-794-3602 or Helen.Galer@vba.va.gov.

R. BIAGIOLI
Loan Guaranty Officer