

# VA Partial Claims

## ESTABLISHING A PERMANENT PROGRAM TO ASSIST VETERAN BORROWERS

Veteran borrowers facing financial hardship should have access to additional tools to resolve delinquency and avoid foreclosure. The partial claim option available to FHA and USDA borrowers is not a tool in the Department of Veteran's Affairs (VA) suite of loss mitigation options. In fact, the COVID-19 Veterans Assistance Partial Claim program expired in October 2022. A partial claim allows a Veteran borrower to either resume their regular payment or achieve a sustainable level of payment reduction when combined with a loan modification.

Action by Congress is necessary to authorize the VA to establish a permanent program. With access to a partial claim, mortgage servicers can deliver timely payment relief to Veterans and preserve affordable homeownership.

### ACTIONS BY CONGRESS

1. Amend 38 U.S.C. § 3732 to allow the VA Secretary to implement a partial claim program.
2. Request that the Veterans Benefit Administration (VBA) determines the amount of appropriations necessary to fund a permanent program, including funding necessary to upgrade technology and provide sufficient staffing resources.<sup>1</sup>

### BENEFITS OF A PARTIAL CLAIM PROGRAM

1. Help the 130,000 Veterans currently behind on payments potentially prevent foreclosure.
2. Creates a consistent consumer experience across the FHA, USDA, Fannie Mae, and Freddie Mac programs and allows Veterans the same benefits as other government program participants.

<sup>1</sup> A preliminary analysis suggests that approximately \$1.5 billion in funding could bring about 130,000 Veterans current on their mortgage payments. Importantly, partial claim funding is due to be repaid to the VA at loan payoff or maturity.



3. Ensures the Veterans Assistance Servicing Purchase program functions as the loss mitigation option of last resort for a high-interest rate environment.

### IMPACT TO THE VBA

1. Creates a positive credit subsidy in future years that can be used to self-fund the partial claim program as Veteran borrowers refinance or payoff their underlying mortgage.
2. The funding fee would not have to be increased, preserving affordable credit for veteran borrowers.
3. Partial Claims are less costly to the VA than foreclosure claims.

**PROPOSED STATUTORY LANGUAGE****38 U.S.C. § 3732 — Procedure on Default**

a(2)

- A. Before suit or foreclosure, the holder of the obligation shall notify the Secretary of the default, and within 30 days thereafter the Secretary may, at the Secretary's option, pay the holder of the obligation the unpaid balance of the obligation, plus accrued interest, and receive an assignment of the loan and security. Nothing in this section shall preclude any forbearance for the benefit of the veteran as may be agreed upon by the parties to the loan and approved by the Secretary.
- B. In the event that a housing loan guaranteed under this chapter is modified under the authority provided under section 1322(b) of title 11, the Secretary may pay the holder of the obligation the unpaid balance of the obligation due, plus accrued interest, as of the date of the filing of the petition under title 11, but only upon the assignment, transfer, and delivery to the Secretary (in a form and manner satisfactory to the Secretary) of all rights, interest, claims, evidence, and records with respect to the housing loan.
- C. (i) The Secretary may establish for payment of a partial claim to a mortgagee that agrees to apply the claim amount to payment of a mortgage on a one- to four-family residence that is in default or faces imminent default, as defined by the Secretary.

(C)(ii)

Any payment of a partial claim under the program established in paragraph (1) to a mortgagee shall be made in the sole discretion of the Secretary and on terms and conditions acceptable to the Secretary, except that:

- A. The amount of the payment shall be in an amount determined by the Secretary, not to exceed an amount equivalent to 30 percent of the unpaid principal balance of the mortgage and any costs that are approved by the Secretary;
- B. The amount of the partial claim shall first be applied to any arrearage on the mortgage and may also be applied to achieve principal reduction;
- C. The mortgagor shall agree to repay the amount of the indebtedness to the Secretary upon terms and conditions acceptable to the Secretary;
- D. The Secretary may permit compensation to the mortgagee for loss income on monthly payments due to a reduction in the interest rate charged on the mortgage;
- E. Expenses related to the partial claim or modification may not be charged to the borrower;
- F. Loans may be modified to extend the term of the mortgage to a maximum of 40 years from the date of the modification; and
- G. The Secretary may permit incentive payments to the mortgagee, on the borrower's behalf, based on successful performance of a modified mortgage, which shall be used to reduce the amount of principal indebtedness.