Repayment Plans. A repayment plan is a written agreement between you and your servicer to reinstate a loan that is at least two months in default. For a period of at least three months (you can request a longer period) you pay the normal monthly payment and an agreed upon portion of the arrearage. Repayment plans may be renegotiated at any time.

Special Forbearance. Special forbearance is a written agreement between you and the servicer setting out terms for reinstating a loan that is at least two months in default. The servicer agrees to suspend all payments or accept reduced payments typically for three-to-four months, but the forbearance can be approved for longer periods. You agree to pay the total delinquency at the end of the forbearance period or agree to some other repayment option at that time.

Modifications. The servicer may modify a VA-insured loan without the agency’s prior approval. The loan must be in default or, with VA approval, at imminent risk of default. The cause for the default must have been addressed so that it is not expected to re-occur. You must be considered a good credit risk, but a past default is not determinative for this factor, and you must have made at least twelve payments on the loan.

If you meet these conditions you can qualify for a “standard VA modification,” where your servicer adds unpaid interest, taxes, insurance, certain assessments (such as for water and sewer charges) to the new principal balance. Legal fees and foreclosure costs may also be added to the modified balance, if they do not exceed the VA’s fee schedule. Late fees and processing costs may not be added. The new principal balance is then amortized over a longer period of time and with a different interest rate, thus lowering your mortgage payments.

The standard modification may result in a decrease or up to a one percent increase in the interest rate, and the new rate must be fixed. The modification may extend the loan term to the shorter of 360 months from the date of the modification or 120 months from the original loan maturity date (unless the original loan term was less than 360 months, in which case the loan term may be extended to 480 months from the loan origination date).

Without VA approval, a loan cannot be modified more than once within three years and not more than three times during the life of the loan. A modification that does not meet the standard guidelines discussed above may still be approved if the VA determines that the modification is in the best interest of the veteran and the agency.

A “VA Affordable Modification” is another option that targets a total monthly payment not greater than 31% of your gross monthly income. After your arrears are added to your principal balance, the interest rate may be reduced to a fixed level based on current market rates, the term may be extended, and payments may be further reduced through principal forbearance. You must submit a complete loss mitigation application to be considered for this option.

Finally, the VA allows servicers at their discretion to offer a trial plan for a “Streamline Modification” without a complete application. The offer should provide for a reduction in the principal and interest payment of at least 10%. The borrower accepts the offer by beginning trial plan payments, and, after making three monthly payments, signs a permanent modification agreement.

Assumptions. If a workout is unsuccessful, your servicer may hold off a foreclosure for a reasonable amount of time to permit you to sell or transfer of the property to someone else. It may be attractive for the new owner to “assume,” that is take over, your mortgage payments. The VA must approve the assumption and the new owner must pay a fee of one-half of 1% of the loan balance as of the date of transfer. There is also a processing charge that cannot exceed $300 and the cost of a credit report, unless state law sets a lower amount. The VA in appropriate circumstances can even reduce the loan balance for the new owner to the amount the new owner paid for the home.

Compromise Sales and Deeds in Lieu of Foreclosure. A “compromise sale” is what the VA calls a short sale. For both the compromise sale and deed in lieu of foreclosure, the servicer does not have to review your financial information if you are more than 60 days past-due (being past-due is also referred to as being “in arrears”). For both options, you lose your home, but
your mortgage loan debt is fully satisfied. The VA authorizes servicers to advance you up to $1,500 for moving expenses.

In a compromise sale, you sell the home yourself. In the “deed in lieu” scenario, you turn the home’s title over to the servicer. The VA must approve any deed in lieu, although it strongly encourages servicers to accept deeds in lieu if no alternative allows retention of the home and there is little likelihood of a short sale. The deed in lieu will usually not be accepted if there are any junior liens on the property. For more advice on short sales and deeds in lieu, see this chapter’s discussion concerning Fannie Mae and Freddie Mac short sales and deeds in lieu.

**Source:** National Consumer Law Center, Surviving Debt [50th NCLC Anniversary Edition], updated at www.nclc.org/library

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