December 1, 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 agency's refund program as discussed in the Housing Policy Council's (HPC) November 30, 2022 letter.

The dramatic increase in interest rates has significantly limited the effectiveness of VA's current loan modification program, and as a result, more loss mitigation options are needed to help veterans who are struggling to make their mortgage payments. Because the refund program gives VA the latitude to adjust the terms of the mortgage, including reducing the interest rate below the market rate, the program should provide the payment relief to borrowers that VA's current options do not achieve. We also continue to advocate for restoration of a partial claim program to help borrowers keep their interest rates and monthly payments if they have regained their full financial capacity. The refund program, however, is the best way to provide payment relief.

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

VA's refund criteria should focus on providing payment relief to veteran borrowers facing financial hardship. Veteran borrowers who lose their homes to foreclosure will face a market with skyrocketing rents. Payment relief provides the best path for helping veteran borrowers stay in their homes. Criteria based on the value of the borrowers' home do 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 November 30, 2022 letter. Unlike HPC, however, we do not believe participation should be voluntary on the part of servicers. Instead, we believe VA should establish clear rules for the program that require servicers to refer eligible loans for refund. With respect to exhausting loss mitigation, we advocate for a bright line rule that makes borrowers eligible for the refund if they do not meet the 20% payment target established in VA Circular 26-21-13. In addition, VA could establish eligibility based on the difference between the borrower's note rate and the market rate. For example, a loan could be eligible for the refund if the market rate is more than 200 basis points higher than the note rate. With respect to foreclosure, the VA should not close off the opportunity to participate in the refund program for borrowers within 90 days of a foreclosure sale, and the VA should instead allow for the suspension of sales to allow for evaluation of the refund. Successors in interest should have the opportunity to apply for the refund. Finally, after a loan is refunded, it should continue to be serviced to VA standards.

We strongly encourage VA to expand the refund program. 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 for your consideration of these comments. If you have any questions or concerns, please contact Steve Sharpe at ssharpe@nclc.org.

Sincerely,

National Consumer Law Center (on behalf of its low-income clients)

CC: Housing Policy Council