Veterans Benefits Administration
Department of Veterans Affairs
Washington, DC 20420

Circular 26-21-07
Change 1
June 3, 2021

Loan Repayment Relief for Borrowers Affected by COVID-19

1. Purpose. The Department of Veterans Affairs (VA) remains firmly committed to assisting VA-guaranteed loan borrowers who experience financial hardship due to the COVID-19 pandemic. Through this Circular, VA is providing an updated summary of the home retention options and alternatives to foreclosure that servicers should utilize to help borrowers affected by the pandemic. This guidance is necessary given the extended duration of the pandemic and developments in VA's program.

2. Therefore, Circular 26-21-07 is changed to read as follows:

Page 1, paragraph 2, section a: replace the paragraph with the following paragraphs: When evaluating a borrower's case, the servicer should consider all home retention options and work with the borrower to select the option that is in the borrower's financial interest. Where home retention options are not feasible, servicers should consider alternatives to foreclosure (a compromise sale or a deed-in-lieu of foreclosure). VA is reminding servicers that Chapter 5 of the VA Servicer Handbook M26-4 provides information about VA's home retention options and alternatives to foreclosure. Servicers can offer these options and alternatives to foreclosure to assist borrowers who are financially affected by the COVID-19 national emergency. Regardless of any option or alternative chosen, servicers should not require a borrower to make a lump sum payment to bring the loan current.[1]

(1) A loan modification is one type of home retention option available in VA's home loan program.[2] 38 CFR §36.4315 Loan modifications, may be referenced for a description and requirements of VA loan modifications. Chapter 5 of the VA Servicer Handbook M26-4 lists two types of loan modifications that expressly allow for a servicer to expedite processing for a borrower affected by a disaster. These options are the VA Disaster Modification and the Disaster Extend Modification.

(2) With this Circular, VA is clarifying that a servicer can enter into a VA Disaster Modification if the modification is made not later than the date that is 18 months after the date on which the COVID-19 national emergency ends without VA preapproval. Additionally, a servicer can offer a VA Disaster Modification regardless of whether the borrower has entered into a COVID-19 forbearance plan and regardless of whether the COVID-19 national emergency caused the default.

(3) Additionally, VA is allowing for Disaster Extend Modifications to extend the loan's original maturity date for up to 18 months, in cases where the loan is modified not later than the date that is 18 months after the date on which the COVID-19 national emergency ends. VA does not normally allow for Disaster Extend Modifications to extend the loan's maturity date more than 12 months beyond the original maturity date without VA preapproval. The servicer can offer a Disaster Extend Modification regardless of whether the borrower has entered into a COVID-19 forbearance plan and regardless of whether the COVID-19 national emergency caused the default.

[1] This limitation should not be construed as prohibiting a servicer from offering a loan deferment option under section 2.b. of this Circular.
[2] See 38 U.S.C. § 36.4315.

3. Rescission. This Circular is rescinded April 1, 2022.

By Direction of the Under Secretary for Benefits

Jeffrey F. London
Executive Director
Loan Guaranty Service

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