

Information on VA Loan Originations and Special Relief for Borrowers During a Federal Government Shutdown

1. Purpose. The Department of Veterans Affairs (VA) is publishing this circular to provide clarity regarding the impact of a Federal Government shutdown on new and existing VA-guaranteed home loans.

2. Employment Directly or Indirectly Affected by the Shutdown. Federal employees, whether furloughed or otherwise not receiving pay, and others reliant on income from government employee spending or government-related contracts may be adversely affected by a federal government shutdown. VA will not deem loans ineligible for guaranty based solely on a shutdown.

a. If, after loan closing, a borrower is furloughed or otherwise adversely impacted by a federal government shutdown, the loan remains eligible for guaranty, provided the lender obtained all required income verification documentation (paystubs, W-2s, verbal VOEs, etc.) prior to loan closing, and the loan is current at the time of guaranty.

b. For income analysis purposes, VA guidelines generally require income to be verified for two years¹ to be considered stable and reliable. If the applicant were subject to furlough due to a government shutdown, that period should not be considered a break in employment provided they return to work in the same status, and the applicant provides their furlough letter for verification purposes.

3. IRS Form 4506-T: VA understands that lenders may be unable to obtain IRS Form 4506-T or tax transcripts during a shutdown, however this should not present a sole barrier to originating a purchase or refinance loan as VA does not specifically require this form under standard or alternative income verification guidelines. This applies to both W-2 wage earners and self-employed borrowers. VA Lenders Handbook Chapter 4 Topic 8, Automated Underwriting Cases (AUS), lists IRS Form 4506-T as a condition that may be present on an AUS feedback certificate, and notes that it may often be required by lenders during a manual underwrite. It is important to note that even if this condition exists, it would be considered an investor or lender overlay exceeding the guidelines established by VA. Lenders should follow VA guidelines for income verification.

4. Flood Insurance Requirement: Lenders are responsible for ensuring that flood insurance², if required, is obtained and maintained on any dwelling that is secured by a VA-guaranteed home loan. VA recognizes that the Federal Emergency Management Administration (FEMA) and other federal entities may be unavailable for routine certifications or correspondence due to a Federal Government shutdown. In such cases, we remind lenders that non-federal flood insurance policies are acceptable provided coverage is sufficient per current VA policy.

See VA Lenders' Handbook, Chapter 9, Topic 10, for additional information.

5. Forbearance Requests: VA encourages holders of guaranteed loans to extend forbearance to borrowers in distress as a result of a Federal Government shutdown. Careful counseling

¹ 38 C.F.R. §36.4340(f)(1)

² 38 C.F.R. §36.4329

with borrowers should help determine whether their difficulties are directly or indirectly related to the shutdown, or whether they stem from other financial difficulties that must be otherwise addressed. The proper use of authorities granted in VA regulations may be of assistance in appropriate cases. For example, Title 38, Code of Federal Regulations (CFR), section 36.4311 allows the reapplication of prepayments to cure or prevent a default. Also, 38 CFR 36.4315 allows the terms of any guaranteed loan to be modified without the prior approval of VA, provided conditions in the regulation are satisfied.

6. Late Charge Waivers: VA believes that many servicers plan to waive late charges on affected loans and encourages all servicers to adopt such a policy for any loans that may have been affected.

7. Credit and VA Reporting: In order to avoid damaging credit records of Veteran borrowers, servicers are encouraged to suspend credit bureau reporting on affected loans. VA will not penalize affected servicers for any late default reporting to VA as a result.

8. Questions. For questions or comments please contact VA at 1-877-827-3702, between the hours of 8:00 AM and 6:00 PM Eastern time.

9. Rescission: This Circular is valid until rescinded.

By Direction of the Under Secretary for Benefits

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