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CHAPTER 9. REFUNDS

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9.01 REFUND CONSIDERATION (38 CFR 36.4320)

a. Refunding is when the Department of Veterans Affairs (VA) elects to purchase a loan from the servicer and assume primary servicing responsibilities. This is VA’s final attempt to keep the borrower in their home. Refunds can be considered if VA determines it is in the best interest of the borrower and the government. The servicer or the VA-assigned technician may initiate the refund consideration process at any time during the life of the loan.

b. VA determines if the following conditions under 38 CFR 36.4320 have been met when reviewing a loan for refunding:

1. All other efforts to cure the default have failed.

2. The servicer is unwilling or unable to extend further forbearance.

3. The Veteran wants to retain their home and occupy the property.

4. The Veteran has overcome the reasons for default and regained the ability to resume monthly payments or will have that ability in the very near future.

5. The Veteran had an acceptable credit history prior to default and is able to verify future income.

6. The refund candidate is the title owner of the property.

7. All current obligors agree to the modification.

8. The net value of the property exceeds the unguaranteed portion of the loan.

9. The Veteran is willing to accept modification of the loan making the loan non-transferable without prior approval of VA.

10. The refunding of the loan will require the owner to sign a modification to the loan documents calling the loan due on sale.

11. Requests for transfers of ownership (assumption) of refunded loans will be considered by the VA portfolio contractor on behalf of the Secretary.

12. Other liens are willing to subordinate their loans.

13. If the net value and maximum guaranty will not satisfy the servicer’s payoff, the servicer must agree to write off the difference prior to making a final recommendation. If the servicer will not write off the debt, the refund must be denied.

c. In rare circumstances, the VA-assigned technician may consider refunding a loan for a non-Veteran co-obligor if the case meets all VA refunding requirements and would be in the best interest of the Government.

d. When VA considers a refund, the servicer is responsible for providing VA the total eligible indebtedness (TEI), the borrowers’ monthly gross income, and the expected monthly escrow amount. Once the VA-assigned technician receives the required information, they will complete their preliminary review to determine the viability for refund consideration, and notify the servicer within 7-calendar days of VA’s decision. The refunded loan’s interest rate can be no more than three percent below the rate in effect for new loans at the time the refund is approved, but not lower than four percent per annum without approval of the Loan Administration Officer. VA’s preliminary decision will be communicated to the servicer and borrower.

e. If the technician determines to pursue further consideration, the technician will notify the servicer and request they suspend all efforts to terminate the loan until VA’s final decision is rendered. Upon notification, the servicer is required to obtain a title search, order a VA interior appraisal, and provide required loan data to include all tax and insurance information, along with copies of the mortgage note and recorded deed of trust (DOT). NOTE - Servicers must confirm that all taxes and Home Owner Association (HOA) fees are current. The VA-assigned technician will notify the borrower of the determination and require they submit the following financial information to VA:

1. Proof of income.

2. Hardship letter.

3. VA Form 26-5655, [*Financial Status Report*](http://www.va.gov/vaforms/va/pdf/VA5655.pdf).

4. VA Form 26-6807A, [*Supplemental Certification for Financial Statement*](http://www.vba.va.gov/pubs/forms/VBA-26-6807a-ARE.pdf).

f. Once all required documentation is received from the servicer and borrower, and the VA appraisal has been completed, VA will conduct an analysis and complete a refund decision process. The maximum amount VA will pay on a refund claim is the net value, plus the guaranty and appraisal costs. VA’s final refund decision will be communicated to both the servicer and the borrower.

9.02 REFUND APPROVAL

a. If the refund is approved, servicers are required to submit the basic claim event, with supporting documentation, in the VA Loan Electronic Reporting Interface (VALERI) no later than the settlement date provided in VA’s approval letter. If the servicer does not submit the basic claim event with documentation by the settlement date, VA will only reimburse for the unpaid principal balance (UPB), interest calculated on the UPB up to the settlement date, and one appraisal when the basic claim event is submitted. No supplemental or appeal claims are permitted on refunded loans.

b. In addition, original title documentation must be forwarded to the VA-assigned technician by the settlement date provided in VA’s approval letter. The following is considered acceptable title documentation:

1. Original mortgage or DOT, or a copy certified by a local authority, with all assignments and any subordination agreements.

2. Original mortgage note from origination endorsed to the Secretary of Veterans Affairs.

3. Original/Copy of mortgagee’s title insurance policy, naming the Secretary of Veterans Affairs as a co-insured, and an updated policy or endorsement naming the Secretary as insured as of the date of the recorded assignment.

4. Recorded assignment of the mortgage to the Secretary of Veterans Affairs.

## c. Upon receipt of all title documentation, VA will submit the documents to the appropriate Loan Guaranty National Practice Group (NPG) for review. VA does not certify claim payment until the title has been approved by the NPG. If the title is not acceptable, VA may reassign the loan back to the servicer and deny refunding of the loan.