5.01 LOSS MITIGATION OPTIONS (05/08/24)

a. Loss mitigation is an option available to help Veterans avoid foreclosure on delinquent loans, and reduce possible loss to the government. The Department of Veterans Affairs (VA) delegates the primary responsibility for loss mitigation to servicers. VA recognizes five loss mitigation options, and pays an incentive to the servicer when any of these options are successfully completed. The loss mitigation options are divided into either home retention options, or alternatives to foreclosure. Home retention options include repayment plans, special forbearances, and loan modifications. Alternatives to foreclosure include short sales, and deed-in-lieu (DIL) of foreclosure.
b. VA also has a purchase option that is available for eligible borrowers as an alternative to foreclosure. Please refer to Chapter 9, VA Purchase, of this handbook for additional information regarding the purchasing process
c. VA technicians may become involved in the loss mitigation process when borrower:.
1. Contact VA directly to request assistance or
2. When the VA-assigned technician determines that a loss mitigation option should be pursued after reviewing the Adequacy of Servicing (AOS), or Pre-Foreclosure process on the loan.
d. When a borrower wants to remain in the home, servicers are to review and offer home retention options as outlined in the VA Home Retention Waterfall. This waterfall can be found in Appendix F of this manual. Home retention options include:
1. Special Forbearance.
2. Repayment Plan.
3. Loan modification.
e. If the servicer and the borrower cannot resolve the delinquency through a home retention option or the borrower no longer wishes to retain the home, the servicer should consider alternatives to foreclosure. Alternatives to foreclosure include:
1. Short sale.
2. DIL of foreclosure.
f. When servicers report a home retention event through their nightly file and the loan reinstates, the VA Loan Electronic Reporting Interface (VALERI) generates a Default Cured/Loan Reinstated (DCLR) event. If servicers report a home retention event manually through the VALERI Events Bulk Upload Templates, they will need to also report the Default Cured/Loan Reinstated event after the home retention event has cured the loan. Once the default is cured through the Default Cured/Loan Reinstated event VA will review for an incentive payment eligibility. When servicers report an alternative to foreclosure event, VA reviews the incentive payment eligibility at that time.
g. When loss mitigation options are not feasible, the servicer should immediately refer the loan to foreclosure in order to reduce potential losses to the Government and to ensure the Veteran’s indebtedness is not unduly increased. VA encourages servicers to continue to pursue loss mitigation options even after initiating the foreclosure process.
h. When a servicer completes a loan modification or alternative to foreclosure on a loan that is less than 61 days delinquent, they will need to report the Electronic Default Notice (EDN) event by choosing imminent default, property problems, or National Emergency Declaration (NED) as the reason for default. In these instances, the EDN must be submitted prior to reporting the loan modification or alternative to foreclosure event. VA does not require the special forbearance or repayment plan events be reported on a loan less than 61 days delinquent, unless the loan is impacted by a National Emergency Declaration.
i. Loans that have been reported with an EDN using the VALERI Events Bulk Upload will not automatically generate the Default Cured Loan Reinstated (DCLR) event. Servicers must manually report the DCLR event when the loan reinstates.
j. Information on loss mitigation event reporting can be found in Chapter 2 of this handbook.