

VA Partial Claims

ESTABLISHING A PERMANENT PROGRAM TO ASSIST VETERAN BORROWERS

Veteran borrowers facing financial hardship should have access to additional tools to resolve delinquency and avoid foreclosure. The time-tested and successful partial claim option available to FHA and USDA borrowers is not a tool in the Department of Veteran's Affairs (VA) suite of loss mitigation options. In fact, the temporary COVID-19 Veterans Assistance Partial Claim program expired in October 2022. A partial claim allows a Veteran borrower to either resume their regular payment or achieve a sustainable level of payment reduction when combined with a loan modification.

Action by Congress is necessary to authorize the VA to establish a permanent program. With access to a partial claim, mortgage servicers can deliver timely payment relief to Veterans and preserve affordable homeownership.

ACTIONS BY CONGRESS

1. Support S. 3728, the Veterans Housing Stability Act of 2024, which authorizes a permanent, non-interest bearing partial claim program, among other VA Home Loan Program changes, and could be introduced in the House with some key revisions.
2. Appropriate necessary funds for a permanent partial claim program, including funding necessary to upgrade technology and provide sufficient staffing resources.

BENEFITS OF A PARTIAL CLAIM PROGRAM

1. Helps Veterans who are currently behind on their payments prevent foreclosure.
2. Creates a consistent consumer experience across the FHA, USDA, Fannie Mae, and Freddie Mac programs and allows Veterans the same benefits as other government program participants.
3. Ensures the Veterans Assistance Servicing Purchase program functions as the loss mitigation option of last resort for a high-interest rate environment.



IMPACT TO THE VBA

1. Self-funds the partial claim program in future years as Veteran borrowers refinance or pay off their underlying mortgage.
2. The funding fee would not have to be increased, preserving affordable credit for Veteran borrowers.
3. Partial claims are less costly to the VA than foreclosure claims.

MYTH VS. FACT ON PARTIAL CLAIMS

MYTH

FACT

Funding a partial claim program is prohibitively costly.

Importantly, partial claim funding is due to be repaid to the VA at loan payoff or maturity, which could replenish funds for future partial claims.

The VA Home Loan Program already receives enough funding and shouldn't detract from other important VA funding priorities.

While other VA programs are also critically important for Veterans, for decades the VA has used home loan fees to pay for other non-housing priorities. When a need for additional funding for Veteran homeowners exists due to normal changes in delinquency cycles and mortgage rates, funds should be available to provide options at least as good as other government home loan programs.

The VA has chosen to pursue development of a servicing transfer program, VASP, and therefore a partial claim program is not necessary.

A partial claim can complement VASP in a loss mitigation waterfall and remove the need for many burdensome servicing transfers and loans on VA's balance sheet. VASP is intended as a targeted program to provide payment relief to seriously delinquent borrowers in a high-rate environment after traditional modifications have proven ineffective.

A partial claim results in an unexpected and unaffordable balloon payment.

As noted, FHA, USDA, and the GSEs all successfully operate partial claim/deferred balance programs to help borrowers. Veterans are fully informed about the subordinate lien and have access to the partial claim amount upon request. In addition, the data suggests that the overwhelming majority of Veterans would have sufficient home equity to pay off a partial claim following a home sale in the future.

The VA foreclosure moratorium is sufficient protection for Veterans to prevent foreclosure.

Although many servicers are voluntarily pausing foreclosures to help Veterans, the moratorium is not required. Even if extended, Veterans will eventually need to resume payments, and a workable solution must be available to cover arrearages.