



**SERVICER
LOSS MITIGATION
PROGRAM**

July 1997

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Processing Fees

Introduction

The Department of Veterans Affairs (VA) Servicer Loss Mitigation Program (SLMP) is designed to streamline the processing of compromise sales (short sales) and deeds-in-lieu of foreclosure by empowering loan servicers to approve these alternatives to foreclosure on VA's behalf. VA's SLMP is appropriate only when loan defaults cannot be reinstated through repayment plans or other forbearance. The purpose of the program is three-fold:

- To reduce the cost of the Loan Guaranty Program to the tax-payer by decreasing the length of time required to complete these alternatives.
 - To reduce the workload of VA regional offices by paying authorized servicers to perform the analysis and approval functions usually completed by VA.
 - To increase the number of these alternatives being completed by providing an incentive to servicers to consider a compromise sale or deed-in-lieu at earlier stages of default, when these alternatives are more often feasible.
-

Early Intervention

The SLMP was designed around the assumption that servicers can and will attempt to identify SLMP candidates as early as possible in the default. The benefits to the servicer of initiating the processing of SLMP alternatives either before or soon after the account becomes delinquent are:

- The feasibility of alternatives can be thoroughly explored before the six-month deadline for 4319f cutoff adjustments.
 - The servicer may avoid receiving a "no-bid" (VA's refusal to issue a specified amount and accept conveyance of the property following a foreclosure or deed in lieu) by limiting the accrual of delinquent interest, advances, and foreclosure expenses.
 - By offering a possible solution to the borrower early on, servicers may be able to discourage the borrower from filing bankruptcy.
-

Processing Procedures

(cont.)

Deviations From Instructions

These instructions are intended to provide a comprehensive guide to the requirements and responsibilities of servicers participating in this program. However, there may be circumstances that are not covered in these instructions, or where approval of an alternative seems appropriate, even though the case does not meet all the stated requirements. **Servicers must receive the written permission of VA prior to waiving any of the requirements of this program. A failure to do so may result in the adjustment or denial of any subsequent claim.**

Reinstatement of SLMP Cases

If an SLMP case reinstates (or was always current) and it is no longer being considered under SLMP, the servicer should notify VA of the reinstatement in writing, not through tape-to-tape reporting.

Concurrent Foreclosure

VA has no policy prohibiting servicers from pursuing foreclosure concurrently with an SLMP alternative. However, we believe that there are circumstances when proceeding with foreclosure despite the fact that an SLMP alternative has been approved is not prudent. Foreclosure increases the losses of both VA and the servicer because VA does not fully reimburse servicers for all foreclosure expenses, and may not reimburse servicers for interest and advances accrued after the cutoff date. We request that foreclosure be suspended once a specific alternative has been approved unless the case is over six months delinquent. In any other circumstance, we request that servicers exercise judgment in deciding when proceeding with foreclosure would be reasonable and prudent. **If a servicer chooses to process foreclosure concurrently with pursuit of an SLMP alternative, the anticipated foreclosure expenses must be reflected in the cost analysis of both the foreclosure and the alternative.**

Definitions

Compromise Sale: When VA pays all or part of the difference between the net sales proceeds and the total indebtedness on a VA-guaranteed loan following the private sale of the property where the proceeds are insufficient to fully pay off the existing mortgage.

Deed in Lieu of Foreclosure: When the obligor conveys the property to the servicer or VA rather than face foreclosure.

Insoluble Default: The obligor's circumstances indicate he/she does not have the ability to prevent foreclosure of the loan and, at the same time, provide for the basic needs of his/her family. A current account may be considered insoluble if unavoidable circumstances will cause the borrower to be unable to maintain the mortgage obligation in the near future.

Applying To Be An SLMP Servicer

If a servicer wishes to participate in the Servicer Loss Mitigation Program, the Memorandum of Understanding (MOU) on page seven and the Agreement on page eight should be completed by an official of the company who has authority over all divisions that may be involved in this program. The two documents should be sent directly to:

Department of Veterans Affairs
Director, Loan Guaranty Service (261)
810 Vermont Avenue, NW
Washington, DC 20420

Upon receipt, VA will verify that the servicer has been assigned a VA servicer I.D. number and issue a letter authorizing the servicer to participate in the program.

VA requests that only companies who plan to actively participate in this program seek approval. The application process is very simple, and the turn around on approvals by Central Office has generally been less than 10 working days. VA regional offices have been instructed to refer requests for compromise sales and deeds in lieu to the servicer if that servicer is approved under SLMP, so it is preferable that a servicer only request authority if it is prepared to begin processing SLMP cases upon approval.

Processing Procedures

(cont.)

Internal Processing By VA

Under the SLMP, VA empowers servicers to approve and process alternatives to foreclosure on our behalf. We have not, however, given up our option of processing these alternatives internally. VA will make every reasonable effort to notify servicers when we elect to process a case internally.

Refusal of Alternative By Servicer

Under this program, the servicer is under no obligation to accept an SLMP alternative simply because it meets VA's minimum requirements. A servicer retains its authority to decide when an alternative to foreclosure is in its own best interest. Servicers are, however, required to notify VA that an alternative has been denied if the servicer previously reported the case as a possible SLMP work-out.

For Further Information or Clarification

If a servicer has questions concerning this program or a specific SLMP case, it should first contact the local VA regional office, or the VA regional loan center with jurisdiction over the loan in question. However, if a servicer is unable to resolve concerns through contact with the regional office, please contact the VA Central Office Loan Management Division at (202) 273-7349. This office does not service loans and will be unable to help servicers process specific cases. However, questions regarding the program procedures and requirements will be answered.

Processing Procedures

(cont.)

MEMORANDUM OF UNDERSTANDING

I, the undersigned, as a legal representative of _____, hereafter referred to as the servicer, acknowledge and agree to the following conditions of participation in the Department of Veterans Affairs' (VA) **Servicer Loss Mitigation Program**.

1. Prior to authorizing the acceptance of any deed in lieu or compromise sale on the behalf of the Secretary of Veterans Affairs, the servicer will guarantee that all provisions of the program have been met, or that a written waiver of any requirement not met has been obtained from VA prior to approval.
2. VA may adjust or refuse any claim submitted under this program if the conditions of the program have not been fully met.
3. VA may revoke the servicer's authority under this program at any time, for any reason. VA will provide the servicer with written notification of this revocation, and will refuse to honor any claim submitted by the servicer under the program if the servicer approved a deed in lieu or compromise sale more than 30 days after such written notice was provided.
4. The servicer will not begin processing requests under this program until after written authorization to do so has been received from the Director, Loan Guaranty Service.
5. The servicer will retain all documentation associated with transactions completed under this program for a period not less than three years, and will provide it to VA within 30 days of a written request by VA.
6. The servicer acknowledges and agrees that the burden is on the servicer to prove that all conditions of the program have been met.

Signature of Authorized Official

Printed Name of Authorized Official

Title

Notary

My Commission Expires

Processing Procedures

(cont.)

AGREEMENT

We have received a copy of the VA Servicer Loss Mitigation Program instructions dated July 1997. We have reviewed the document and agree to adhere to the requirements contained in this document.

Signature of Authorized Official

Title

Printed Name of Authorized Official

Company

Date

CONTACT PERSON:

Printed Name

Title

Address

Telephone Number

Fax Number

Please check one item below:

- VA may provide this information directly to the borrowers.
- This information is provided for use by VA personnel only.

FUTURE UPDATES

Please check appropriate boxes below:

- Send to Authorized Official.
- Send to Contact Person.

**Please complete and send this document
and the Memorandum of Understanding to:**

**Director, Loan Guaranty Service (261)
Department of Veterans Affairs
810 Vermont Avenue
Washington, DC 20420**

Processing Procedures

(cont.)

Processing Fee

VA will pay authorized servicers a \$200 processing fee for every compromise sale or deed in lieu completed under SLMP. In addition, servicers will receive a bonus of \$200 per month for every month a compromise sale is completed prior to the 36.4319f cutoff date (see DOI - page 10.) The full \$200 bonus will be paid on partial months provided at least 15 days have elapsed.

Servicers may not collect this or any other processing fee from the obligor in connection with one of the approved alternatives (with the exception of the allowable assumption fee on assumption/compromise sale cases).

If a servicer disapproves a request, or, if at any time, VA finds it necessary to take over the processing of the case due to the servicer's failure to pursue the alternative in a prudent and expeditious manner, no servicing fee will be payable.

The processing fee cannot be paid over and above the maximum claim amount.

Sample Calculation

On September 1, 1997, VA issues a cutoff date of March 31, 1998, in response to a request for determination of insolvency. The servicer applies two full payments during September and October. An SLMP compromise sale closes on December 13, 1997. The processing fee would be computed as follows:

| | | |
|-------------------------------------|----------------|-----------|
| December 13 through January 12th | \$200 | |
| January 13th through February 12th | \$200 | |
| February 13th through March 12th | \$200 | |
| March 13th through April 12th | \$200 | |
| April 13th through May 12th | \$200 | * See DOI |
| May 13th through May 31st (19 days) | \$200 | * |
| Base Fee | \$200 | |
| Total Fee Payable | \$1,400 | |

Processing Procedures

Processing Steps

The appropriate steps in processing SLMP foreclosure alternatives are:

1. Obtain a written request and supporting documentation from the obligor.
2. Obtain a determination of insolvency (DOI) from VA.
3. Determine the property's value.
4. Evaluate VA's anticipated losses under the alternative and foreclosure.
5. Determine the need for and obtain (if necessary) a promissory note from the obligor.
6. Approve/Disapprove the request.
7. Notify VA and the obligor of the decision in writing.
8. Process the alternative.
9. File a claim with VA.

Written Request And Supporting Documentation

When a servicer becomes aware that the obligors on a VA guaranteed loan wish to pursue either a deed in lieu or a compromise sale, the servicer should require that all obligors on the loan submit a written request. The request should include a hardship letter explaining why they are no longer able to support their mortgage obligation, and sufficient information to ascertain their financial situation. A financial disclosure form and recent pay stubs should be sufficient. VA does not require that servicers obtain independent verification such as tax returns, verifications of income, etc., unless the regional office specifically requests it.

Determina- tion of Insolubility

VA must make a determination that the default is insoluble before a servicer can approve any foreclosure alternative on behalf of VA. VA will make every reasonable effort to respond to requests for a determination of insolubility (DOI) via facsimile within two working days of receipt, unless additional documentation is necessary. VA will acknowledge that a default is insoluble by establishing a cutoff date under 38 CFR 36.4319f, and notifying the servicer of the same by letter. A cutoff letter is the **only** acceptable documentation that VA has determined the default to be insoluble. If VA has already provided a cutoff letter, the servicer does not need to pursue a DOI.

The cutoffs issued in response to DOI requests are always equal to 135 days from the date of first uncured default, plus the amount of time necessary for foreclosure in that area of jurisdiction. In the rare occurrence that this date would be prior to the date the DOI is requested, the cutoff date will be the date that the DOI was approved.

As with any 4319f cutoff issued by VA, the cutoff will be adjusted forward one month for every full payment applied by the servicer after the date the cutoff letter was issued.

In general, cutoffs issued in response to DOI requests will not otherwise be adjusted. However, if the servicer is unable to complete an SLMP alternative, and foreclosure cannot be completed before the cutoff date, VA will consider adjusting the cutoff date to allow the servicer time to complete the foreclosure, **provided:**

- The account is no more than six months in default at the time the servicer requests the adjustment,
- The servicer has diligently pursued the alternative and met all of VA's timeliness requirements, and
- The servicer notified VA within five calendar days after determining that the alternative would not be possible.

Because the cutoff date will be the same regardless of the stage of default at which the DOI is requested, we **strongly** recommend that servicers request the DOI as soon as possible to avoid a delay in completing the alternative should VA be unable to complete a DOI within two working days.

Processing Procedures

(cont.)

Determina- tion of Insolubility (continued)

VA will issue a DOI only after we have made personal contact with the current owners. Servicers should obtain a daytime telephone number for the current obligors before submitting a DOI request. If for some reason the obligors cannot be contacted (i.e., they are deceased or incarcerated), the servicer should clearly indicate this in the DOI request.

Servicers are reminded that the original veteran, and other prior owners who may remain liable on the loan, must be sent a copy of the Notice of Intention to Foreclose (VA Form 26-6850a) by registered mail within 30 days after such notice is sent to VA (see VA Handbook H26-94-1, VA Servicing Guide, paragraph 4.07 for details.) Because a Notice of Intention to Foreclose is required at the time of, or prior to, a DOI request, servicers must complete these notifications, with copies to VA, within 30 days of the DOI request.

There will be circumstances under which the servicer and VA disagree as to whether or not an account is insoluble. However, VA has retained the authority to make this decision. We request that servicers forward a DOI request to VA, even if, in the servicer's judgment, the account is not insoluble. **This does not mean that the servicer need suspend collection and/or termination actions while the request is processed.** We also require that the servicer provide VA with their opinion, including any pertinent or unusual information, as to whether the default is, in fact, insoluble.

A DOI request should contain, as a minimum:

- The obligors' written request for the alternative,
 - The obligors' financial information,
 - A status update on the account,
 - Telephone numbers for the obligor(s) and the servicer's representative,
 - A fax number to which the response should be sent,
 - A combination Notice of Default/Notice of Intention to Foreclose (if the account is current or has not yet been reported to VA), and
 - The opinion of the servicer as to the insolubility of the account.
-

Property Value

*(Compromise
sale)*

The servicer may only accept a compromise sale offer after the value of the property is determined by means of an appraisal **ordered through VA**. The cost of the appraisal may not exceed the maximum reimbursable amount established by the VA Regional Office with jurisdiction over the account. The cost of the appraisal may be charged directly to the obligor. If it is not paid by the borrower, VA will reimburse the holder for the cost of one appraisal when a claim is filed, and the appraisal fee may be paid over and above the maximum guaranty amount. We suggest that an appraisal be ordered early in the process to avoid delays that may jeopardize the sale. If the purchaser is applying for a VA-guaranteed loan, the Certificate of Reasonable Value issued in conjunction with the new loan may be substituted for the appraisal.

VA places no restriction on the contract price that must be obtained for an acceptable compromise sale. Rather, on the claim, VA will credit an amount equal to the actual proceeds of sale, or 88% of the appraised market value, which ever is greater.

For the purposes of an SLMP compromise sale only, the servicer may request that the appraisal be sent directly to their office. The appraisal request should **clearly** indicate that the appraisal is being ordered in connection with an SLMP compromise sale and that it will be reviewed by the servicer. Should the compromise sale fall through, the appraisal must be forwarded to VA for determination of a specified amount.

If, after receiving an appraisal directly from the appraiser, the servicer disagrees with the market value assigned, the appraisal may be sent to VA for review and adjustment of the market value when appropriate. Any request for an increase or decrease in a value estimate must be supported by real estate market or other valid data which would be considered adequate and reasonable by professional appraisal standards. VA cannot place any higher priority on these cases than on origination or foreclosure appraisals. Therefore, VA again strongly recommends that servicers order the appraisals early and request adjustments as soon as possible.

Processing Procedures

(cont.)

Property**Value**

(Deed in lieu)

The servicer must obtain a specified amount from VA before accepting a deed in lieu of foreclosure. After ordering the appraisal through VA, the servicer should file a VA Form 26-567, "Status of Loan Account - Foreclosure or Other Action" with the VA regional office or regional loan center with jurisdiction over the account. All documents, including the appraisal request, the VA Form 26-567, and the appraisal itself should be submitted with a cover letter clearly stating that they are being submitted in connection with an SLMP deed in lieu. Servicers should remind the fee appraiser to clearly indicate that the appraisal was ordered in conjunction with a VA SLMP deed in lieu before submitting it to VA. VA will make every reasonable effort to provide a specified amount within two working days of the receipt of the appraisal and the VA Form 26-567.

Evaluate VA's Losses

The servicer must estimate VA's anticipated losses under both the alternative under consideration and foreclosure. The servicer may not approve any SLMP alternative unless it can demonstrate that the subsequent claim would be less than the claim that would result from foreclosure (* see exception below.) A recommended cost analysis sheet, and instructions for its use, are contained on pages 19-22. Servicers are not required to use this form. However, all information contained in the recommended form must be clearly provided in any alternate form, and servicers will be held accountable for any errors caused by omission. Any alternate form must clearly state what VA's expected claim payments under both the alternative and foreclosure will be.

VA understands that servicers will be estimating VA's claim payments. Minor variances between the actual and estimated claim payment will not be grounds for the denial or adjustment of the claim. However, if after a claim is submitted, VA determines that foreclosure would have been significantly less expensive than the alternative had the servicer correctly estimated the claim payments, the claim may be adjusted to the estimated amount VA would have paid under foreclosure. In addition, if a servicer consistently and/or significantly under or over-estimates VA's actual or anticipated claim payment, this may be grounds for the suspension or revocation of authority under this program.

Servicers are not required to routinely provide documentation to justify most cost estimates. However, VA may request a written explanation of any unusual or inconsistent entries.

*** Exception for "no-bid" compromise sale cases.** If the estimated claims under both the foreclosure and compromise sale claim would be equal to the lesser of the maximum claim payable or the maximum guaranty (both cases are a "no-bid" - see recommended cost analysis), the servicer may approve the compromise sale, even though the estimated alternative claim is not less than foreclosure. However, the servicer must provide a signed statement to VA (at the time the claim is submitted) and the borrower indicating that neither VA nor any obligor on the loan will be pursued for any portion of the indebtedness not repaid by the maximum claim payment and the proceeds from sale. **Under no circumstances will VA pay any amount in excess of the maximum claim payable plus the cost of one appraisal.**

Processing Procedures

(cont.)

Promissory Notes

SLMP servicers are authorized to waive VA's collection rights for up to 50% of any debt to VA arising from a claim paid under this program. Servicers must obtain a promissory note signed by the obligors, payable to the Secretary of Veterans Affairs, for the balance of the anticipated debt. The terms of the note shall be such that the balance is amortized over a five year period (at a rate specified by VA) with equal monthly payments beginning one year from the date of execution. A sample promissory note and the current rate chargeable on the note should be obtained from the regional office or regional loan center with jurisdiction over the account.

If the servicer determines that a liable obligor is either unable or unwilling to sign a promissory note, the servicer may request a written waiver of this requirement from VA without jeopardizing the servicing fee. If, after examination, VA determines that the requirement should not be waived, the servicer may not proceed with the alternative until the obligor has signed the promissory note. VA will make every reasonable effort to respond to such requests via facsimile within two working days of receipt, unless additional documentation is necessary.

There are three situations when servicers may proceed with the alternative and release the obligors from any further liability to VA without obtaining a promissory note:

1. The estimated claim payable by VA under the alternative will be less than 50% of the estimated claim under foreclosure;
2. The commitment on the loan was made after December 31, 1989, and it has not been assumed; or,
3. The current home owner is a transferee who is not legally liable for the loan and has not agreed to indemnify VA against loss due to a loan default.

The promissory note must be submitted to VA with the claim package. **If a servicer fails to obtain a promissory note when one is required, the claim will automatically be reduced by 50%.**

**Approve
/Disapprove
the Request**

Though some of the conditions are stated elsewhere in this document, a summary of the requirements for acceptance of the alternatives is provided below:

Compromise Sale Requirements

1. VA issued a letter establishing a cutoff date under 38 CFR 36.4319f
2. The estimated claim payment under the compromise sale does not exceed the estimated claim under foreclosure
3. The obligor receives no compensation
4. The obligor has signed a promissory note if one is required
5. (Assumptions only) The purchaser is financially qualified and has agreed in writing to be liable for the loan and to indemnify VA for any claim payment resulting from a default on the loan.
6. (Assumptions only) The servicer has agreed in writing that VA will reduce the maximum guaranty by the amount of the claim payment, and that the guaranty percentage will be recalculated based on the remaining guaranty and the new loan balance.

Deed in Lieu Requirements

1. VA issued a letter establishing a cutoff date under 38 CFR 36.4319f
2. VA has provided a specified amount in connection with the deed in lieu
3. The servicer has obtained a title report and determined that no secondary liens exist and title is acceptable
4. The estimated claim payment under the deed in lieu does not exceed the estimated claim under foreclosure
5. The obligor has signed a promissory note if one is required

While VA feels that requesting an obligor to list a property for sale before considering a deed in lieu is a prudent practice, we do not require it. We request that servicers use their judgment in determining when this would be a reasonable requirement.

Processing Procedures

(cont.)

Notification

Regardless of whether the servicer approves or disapproves a requested alternative, VA must be notified of this decision in writing within 5 days of the decision. A copy of the letter sent to the obligor will be sufficient if the letter contains the VA loan number. Failure to provide VA notice of a decision may result in a refusal by VA to adjust the 4319f cutoff date in the event that the servicer is unable to complete the alternative and must instead pursue foreclosure.

Processing

If the alternative has been accepted, the servicer should process the case and take all necessary steps to complete the transaction as quickly as possible. If VA determines that a servicer is not processing the alternative diligently, the regional office may assume responsibility for completing the alternative, and no processing fee will be payable to the servicer, regardless of the stage of completion.

Filing a Claim

The process and requirements of conveying title (Deed in lieu only) and filing a claim with VA under SLMP are essentially the same as the procedures explained in VA's Servicing Guide (H26-94-1) Chapters 5 and 6. In addition to the documentation normally required with a deed in lieu or compromise sale claim, the servicer must submit:

1. A signed promissory note (if one is required)
2. The VA cost analysis
3. A copy of the appraisal used to establish the property value (unless it has already been submitted to VA to obtain a specified amount in connection with a deed in lieu.)
4. A copy of the signed sales contract and a copy of the signed HUD-1 settlement statement from the closing (compromise sale only)

Servicers should ensure that all required information is included in a claim package before submitting it to VA.

Claims on deeds in lieu of foreclosure must be submitted on VA Form 26-1874. An alternative short-form for compromise sales with instructions is provided on pages 23 and 24, and may be used in place of the 26-1874. Use of this form will simplify VA's processing of the servicer's claim. However, the short-form is not required.

Time Requirements

In order for the SLMP to successfully mitigate VA's losses while still providing essential services to veteran borrowers, it is imperative that servicers process SLMP alternative requests as quickly as possible. VA expects that any servicer participating in this program will provide adequate staffing to assure that all stages of processing are handled expeditiously. The following are timeliness requirements placed on servicers as a condition of participating in this program (all time frames are calendar days):

- 5 days Submission of determination of insolvency request to VA after all necessary information has been received by the servicer

- 15 days Decision to approve or disapprove an SLMP alternative (with written notification to VA) after all necessary information has been received by the servicer

- 60 days Recording the deed after a deed in lieu of foreclosure has been approved.

- 7 days Request for additional information after the receipt of incomplete information from VA, the borrower, or real estate agents involved in the sale.

Servicers do not need to routinely submit documentation that these timeliness requirements have been met. However, they must provide such documentation to VA upon request.

If VA determines that a servicer is not meeting these requirements on any particular case, we may assume responsibility for processing the alternative, and no processing fee will be paid. Repeated failure to meet the timeliness requirements may result in the suspension or revocation of the servicer's authority under SLMP. If VA determines that a servicer's failure to meet these requirements has resulted in an increase in VA's liability, the claim may be adjusted by the number of days of interest by which the servicer failed to meet the timeliness requirements.

VA recognizes that circumstances may occasionally make it difficult for servicers to meet these timeliness standards. If this is the case, the servicer should contact VA and explain the reason for the delay. VA will either assume responsibility for the case or provide a written extension of the time requirements. In either case, no adjustment to the claim will take place if the servicer requests the extension before the time limit expires.

Recommended Cost Analysis and Instructions

VA COST ANALYSIS

GENERAL INFORMATION

| | | | |
|------------------------------|-----|--------------------|------|
| 1. 4319f Cutoff Date | / / | 7. Market Value | \$ |
| 2. Est. Alt. Completion Date | / / | 8. (1 - NVF) | x % |
| 3. Percent of Guaranty | % | 9. Net Value | = \$ |
| 4. Original Loan Amount | \$ | | |
| 5. Net Value Factor | % | 10. Orig. Ln. Amt. | \$ |
| 6. Prior Buydown (if any): | | 11. % of Guaranty | x % |
| Amount | \$ | 12. Max. Guaranty | = \$ |
| Date | / / | | |

ESTIMATED FORECLOSURE CLAIM

| | | | | | |
|---------------------------------------|---|----|---|-------|--|
| 13. Principal Balance | | \$ | | | |
| 14. Interest on Principal to cutoff | + | \$ | | | |
| 15. Estimated T&I Advances | + | \$ | | | |
| 16. Estimated interest on advances | + | \$ | | | |
| 17. (less) T&I balance | - | \$ | | | |
| 18. Eligible Indebtedness | = | \$ | x | (25.) | Percent of Guaranty |
| 19. Estimated liquidation expenses | + | \$ | | | % |
| 20. (less) Insurance proceed /refunds | - | \$ | | | = |
| 21. (less) other credits | - | \$ | | | (26.) Maximum Claim Payable |
| 22. Total eligible indebtedness | = | \$ | | | \$ |
| 23. (less) Net value | - | \$ | | | |
| 24. Balance of indebtedness | = | \$ | | (27.) | Estimated Foreclosure Claim |
| | | | | | \$ |

ESTIMATED ALTERNATIVE CLAIM

| | | | | | |
|--|---|----------|---|-------|--|
| 28. Principal Balance | | \$ | | | |
| 29. Interest on Principal to comp. date | + | \$ | | | |
| 30. Estimated T&I Advances | + | \$ | | | |
| 31. Estimated interest on advances | + | \$ | | | |
| 32. (less) Buydown (d.i.l. only) | - | \$ | | | |
| 33. (less) T&I balance | - | \$ | | | |
| 34. Eligible Indebtedness | = | \$ | x | (43.) | Percent of Guaranty |
| 35. Base Processing Fee | + | \$200.00 | | | % |
| 36. Comp Sale Bonus (____ months) | + | \$ | | | = |
| 37. Estimated liquidation expenses | + | \$ | | | (44.) Maximum Claim Payable |
| 38. (less) Insurance proceed /refunds | - | \$ | | | \$ |
| 39. (less) other credits | - | \$ | | | |
| 40. Total eligible indebtedness | = | \$ | | | |
| 41. (less) Net val or proceeds (See #41) | - | \$ | | | |
| 42. Balance of indebtedness | = | \$ | | (45.) | Estimated Alternative Claim |
| | | | | | \$ |

Recommended Cost Analysis and Instructions

(cont.)

INSTRUCTIONS FOR VA COST ANALYSIS SHEET

| | |
|-----|--|
| 1. | The servicer must have a letter from VA stating that a cutoff has been imposed under 38 CFR 36.4319f before they may approve an SLMP alternative. The cutoff date in the letter, not the date the letter was issued, should be entered here. |
| 2. | The servicer should estimate upon what day the compromise sale or deed in lieu will be completed, provided no unusual circumstances cause a delay. |
| 3. | The percent of guaranty is located on the Loan Guaranty Certificate (LGC). |
| 4. | The original loan amount as stated on the mortgage instruments. |
| 5. | The Net Value Factor is the percentage of the reasonable market value that VA subtracts to arrive at the net value. The percent represents VA's anticipated costs to acquire, maintain and remarket a property. The net value is recalculated once a year during the fall, and is available from any VA regional office or regional loan center. |
| 6. | Prior buydown refers to a partial write off of the indebtedness to obtain a specified amount completed prior to the current transactions. One situation where this might occur would be when the servicer completed a buydown for a previously scheduled sale, but the borrower filed bankruptcy prior to sale. This information will help VA verify the appropriate amount of interest due the servicer. Buydowns being completed to obtain a specified amount for the deed in lieu currently under consideration should not be listed here, but rather in item #32. |
| 7. | The "as is" value of a property as determine by an appraisal ordered through VA. |
| 8. | One minus the net value factor. |
| 9. | The product of #7 & #8, resulting in the net value of the property to VA. |
| 10. | The original loan amount as stated on the mortgage instruments. |
| 11. | The percent of guaranty is located on the Loan Guaranty Certificate (LGC). |
| 12. | The product of the original loan amount and the percent of guaranty will be the maximum guaranty, or the highest amount that VA can ever pay as a claim under the guaranty. |
| 13. | Principal balance should be the principal balance as of the time the form is completed, including any prior buydown, as defined in #6. It should not include any buydown currently being completed to obtain a specified amount on a SLMP deed in lieu. |
| 14. | Interest at the note rate on the actual principal balance from the date interest was last paid, through the 4319f cutoff date. If a prior buydown (see #6) occurred, interest from the date the buydown was completed until the cutoff should only be charged on the reduced principal balance. |
| 15. | The servicer should include only those escrow advances that it reasonably expects to make prior to the cutoff date. If the figure seems excessive or unusual, VA may require documentation to support the advance estimate. |
| 16. | Interest at the note rate on all advances from the date they were or will be paid by the servicer to the cutoff date. |
| 17. | Any balance in the T&I account not already reflected in the estimation of advances. |
| 18. | The sum of #13 - #17 represents the indebtedness on which the maximum claim payable is determined. |

Recommended Cost Analysis and Instructions

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| 19. | The servicer should include the reimbursable liquidation expenses they expect to incur. This information should be available in releases listing the maximum amount of liquidation expenses that will be reimbursed that are provided periodically to servicers by the regional offices and regional loan centers. If the figure seems excessive or unusual, VA may require documentation to support the estimated liquidation expenses. |
| 20. | Actual or anticipated insurance refunds or proceeds from a loss settlement. |
| 21. | Any other actual or anticipated credit to the account. Provide short explanation. |
| 22. | The sum of #18 - #21, the gross amount due the holder of the loan. |
| 23. | The net value calculated in item #9. |
| 24. | Item #22 less item #23 |
| 25. | The percent of guaranty is located on the Loan Guaranty Certificate (LGC). |
| 26. | The product of #17 and #25 provides the maximum claim payable by VA on this account at the time foreclosure is expected to be completed. |
| 27. | The estimated foreclosure claim payment is the lesser of #12, #24, or #26. |
| 28. | Principal balance should be the principal balance as of the time the form is completed, including any prior buydown, as defined in #6. It should not include any buydown currently being completed to obtain a specified amount on a SLMP deed in lieu. |
| 29. | Interest at the note rate on the actual principal balance from the date interest was last paid through the estimated alternative completion date. If a prior buydown (see #6) occurred, interest from the date the buydown was completed until the cutoff should only be charged on the reduced principal balance. |
| 30. | The servicer should include only those escrow advances that it reasonably expects to make prior to the estimated alternative completion date. If the figure seems excessive or unusual, VA may require documentation to support the advance estimate. |
| 31. | Interest at the note rate on all advances from the date they were or will be paid by the servicer to the estimated alternative completion date. |
| 32. | Deed in lieu only. The full amount of any portion of the indebtedness being written off by the servicer in order to obtain a specified amount. This buydown must be reflected in the account ledgers on the same date it was reported as completed on the VA Form 26-567. |
| 33. | Any balance in the T&I account not already reflected in the estimation of advances. |
| 34. | The sum of #28 - #33 represents the indebtedness on which the maximum claim payable is determined. |
| 35. | \$200 base fee for processing an SLMP alternative |
| 36. | Comp. sale. bonus - See instructions under "Processing fee." |
| 37. | Deed in Lieu- The servicer should include all liquidation and property preservation expenses they have incurred or expect to incur. Compromise Sale - The servicer should include any liquidation or property preservation expenses related to the compromise sale, and any actual or anticipated expenses associated with a prior or concurrent foreclosure. |
| 38. | Actual or anticipated insurance refunds or proceeds from a loss settlement. |
| 39. | Any other actual or anticipated credit to the account. Provide short explanation. |

Recommended Cost Analysis and Instructions

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| 40. | The sum of #34 - #39, the gross amount due the holder of the loan. |
| 41. | Deed in Lieu - The net value calculated in item #9. Compromise sale - The anticipated proceeds from the sale, or 88% of the appraised market value, which ever is greater. |
| 42. | Item #40 less item #41. |
| 43. | The percent of guaranty is located on the Loan Guaranty Certificate (LGC). |
| 44. | The product of #34 and #44 provides the anticipated maximum claim payable by VA on this account at the time the alternative is expected to be completed. |
| 45. | The estimated alternative claim payment is the lesser of #12, #42, or #44. |

Recommended Comp. Sale Short Form and Instructions

STATEMENT OF ACCOUNT - SLMP COMPROMISE AGREEMENT

| | |
|------------------------|---------------------------|
| Name of Holder: _____ | VA's Loan # _____ |
| Holder's Address _____ | Original Veteran(s) _____ |
| _____ | _____ |
| Holder's Loan # _____ | Current Owner(s) _____ |
| _____ | _____ |

- | | | | |
|--|---|--|--------------|
| 1. Unpaid Principal Balance | | | _____ |
| 2. Interest due from _____ to _____ @ _____% | + | | _____ |
| 3. Advances for T&I | + | | _____ |
| 4. Other Expenses | + | | _____ |
| 5. Credit: Balance in T&I Account | - | | _____ |
| 6. Total Eligible Indebtedness | = | | _____ |
| 7. Processing Fee | + | | _____ 200.00 |
| 8. Processing Bonus (_____ Months x \$200.00) | + | | _____ |
| 9. Credit: The Net Proceeds Of Sale, or 88% Of Appraised Market Value, Which Ever Is Greater | - | | _____ |
| 10. Net Amount of Claim Payable to the Holder | = | | _____ |

The Undersigned hereby certifies that the information contained herein is true and accurate, that this is a correct and valid claim, and that payment has not yet been received.

Name and Title

Signature

Date

| FOR VA USE ONLY | | | | | | | | | | |
|---|-------------------------|-------|-------|---|-------------|-------|-----------------------|-------|-------|---|
| <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%; padding: 2px;"><i>TT512 "50" coded</i></td> <td style="width: 10%; padding: 2px;">Date</td> <td style="width: 60%; padding: 2px;">_____</td> </tr> <tr> <td style="padding: 2px;"><i>TT550 Cure coded</i></td> <td style="padding: 2px;">_____</td> <td style="padding: 2px;">_____</td> </tr> <tr> <td style="padding: 2px;"><i>GIL TT55 coded</i></td> <td style="padding: 2px;">_____</td> <td style="padding: 2px;">_____</td> </tr> </table> | <i>TT512 "50" coded</i> | Date | _____ | <i>TT550 Cure coded</i> | _____ | _____ | <i>GIL TT55 coded</i> | _____ | _____ | <p style="text-align: center;"><i>Payee is entitled to payment described herein (circle one)</i></p> <p style="text-align: center;"><i>36X4025 (type 2) 36X4023 (type 6)</i></p> <p style="text-align: center;"><i>Finance: This Compromise sale is to be paid manually outside LCS under 38 USC 3720</i></p> |
| <i>TT512 "50" coded</i> | Date | _____ | | | | | | | | |
| <i>TT550 Cure coded</i> | _____ | _____ | | | | | | | | |
| <i>GIL TT55 coded</i> | _____ | _____ | | | | | | | | |
| <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%; padding: 2px;">_____</td> <td style="width: 40%; padding: 2px;">_____</td> </tr> <tr> <td style="padding: 2px;"><i>Signature of LS&C Chief or Authorized Official</i></td> <td style="padding: 2px;"><i>Date</i></td> </tr> </table> | | _____ | _____ | <i>Signature of LS&C Chief or Authorized Official</i> | <i>Date</i> | | | | | |
| _____ | _____ | | | | | | | | | |
| <i>Signature of LS&C Chief or Authorized Official</i> | <i>Date</i> | | | | | | | | | |

Frequently Asked Questions

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|--|--|
| Name and Address of Holder | The name and address of the holder/servicer to whom the claim reimbursement check should be made out and sent |
| Holder Loan # | The number by which the party listed under "Name and Address" identifies the account |
| VA Loan # | The full 12-digit VA identification number |
| Original Veteran(s) | The veteran or veterans who originated the loan as listed on the loan guaranty certificate |
| Current Owners (s) | The party or parties who owned the property at the time the sale closed |
| 1. Unpaid Principal Balance | The unpaid principal balance at the time the sale closed. If there has been any prior buydown (i.e. to obtain bidding instructions for a prior foreclosure attempt) the date and amount of the buydown should be noted separately. |
| 2. Interest due from ____ to ____ @ ____%. | Enter the date through which interest is paid, the date of the sale closing, the note interest rate, and the total interest being claimed. |
| 3. Advances for T&I | Enter the total amount of advances being claimed. This should be amounts advanced for taxes and insurance that were not paid from a positive escrow account. The date, amount and purpose of advances should be listed separately, and must be supported by payment ledgers and billing statements. |
| 4. Other Expenses | Amount of funds advanced for purposes other than taxes and insurance (i.e. liquidation expenses, appraisal, property inspections.) The date, amount and purpose of the advances should be listed separately, and must be supported by billing statements and receipts. |
| 5. Credit: Balance in T & I Account | Enter the amount of any positive escrow balance at sale closing. If an amount is entered here, the "Advances" section should be -0-, and vice versa. The T&I balance must be supported in the payment ledgers. |
| 6. Total Eligible Indebtedness | The sum of sections 1-5 |
| 7. Processing fee | Always \$200 |
| 8. Processing Bonus | Enter the number of months the compromise sale was completed prior to the established 4319f cutoff date (see "processing fee" in instructions) and multiply by \$200. |
| 9. Credit: The Net Proceeds Of Sale, or 88%... | The actual net proceeds received following the sale closing, or 88% of the appraised market value, whichever is greater. |
| 10. Net Amount of Claim ... | The sum of sections 6-9 |

Frequently Asked Questions

- Q) Why does VA accept some DOIs and alternatives if the servicer has already rejected them?***
- A) VA is an agency of the Federal Government whose mission is to provide assistance and benefits to veterans of the Armed Forces. While a servicer generally decides whether or not to consider and/or accept an alternative to foreclosure based solely on the potential savings to the company, VA must consider not only the cost of the Home Loan Program to the taxpayer, but also the needs of the veterans the program was designed to assist. This occasionally results in a decision which may not seem reasonable by the standards the servicer sets for its own operations.
- Q) Will VA process an alternative “in-house” if the obligor requests it?***
- A) VA will consider assuming responsibility for processing an SLMP alternative if a borrower requests that VA do so. However, VA will only honor the request if there is a justifiable reason that the obligor cannot work with the servicer, or if there is documented evidence indicating that the servicer is not handling the case in an expeditious or appropriate manner.
- Q) Is VA required to refer potential compromise sales and deeds in lieu to the servicer if the servicer is approved under SLMP?***
- A) It is VA’s policy that potential compromise sales and deeds in lieu be referred to an SLMP servicer. However, VA has only authorized servicers to complete these alternatives on our behalf. VA has not given up its authority to process these cases “in-house.” Under no circumstances may a servicer require VA to allow the servicer to process a case.
- Q) If VA assumes responsibility for processing an SLMP alternative, will the servicer still receive the processing fee?***
- A) In most circumstances, VA will only take a case back from the servicer if the servicer’s processing of the case is seen as inadequate or untimely. If VA takes over the case because of a servicer’s failure to take appropriate action, VA will not pay any portion of the processing fee. However, if VA is required to assume responsibility for processing a partially completed case through no fault of the servicer, VA will consider paying a partial fee on a case by case basis. Servicers should send a request for partial reimbursement, including documentation verifying the work that has already been completed, to the regional office with jurisdiction over the loan.
- If a servicer feels that a regional office has unfairly or inappropriately assumed responsibility over the case or refused partial reimbursement of the processing fee, and attempts to resolve the situation through the regional office have been unsuccessful, the servicer may forward their request to VA’s Central Office staff for review. However, Central Office will only request the regional office reconsider their decision if their actions clearly violate existing policies or instructions.

Frequently Asked Questions

(cont.)

Q) Will VA pay the processing fee in addition to the maximum claim?

A) The claim paid on any VA-guaranteed loan can never exceed the maximum guaranty established at the time the loan originated. The only exception to this is that the cost of a VA liquidation appraisal may be reimbursed in addition to the maximum guaranty.

Q) Is the VA going to pay incentives for processing Refundings and Special Forbearances?

A) VA has no plans to include any other alternatives to foreclosure or work out options in the SLMP program. SLMP is designed to be used only when an account is insoluble. If a borrower is able to reinstate and support his or her loan, VA expects servicers to follow prudent lending practices and offer special forbearances and modifications when the circumstances warrant it.

Q) Does the servicer have the right to negotiate unsecured notes when the alternative requires a write off or buydown?

A) If a proposed **SLMP deed in lieu** is a "no-bid," the portion of the indebtedness that would not be covered by the specified amount and the maximum claim payment must be written off and reflected in the ledgers before the servicer can obtain a specified amount, a requirement for acceptance under SLMP. Because the balance of the indebtedness will be satisfied by VA, there is no reason for a servicer to pursue an unsecured note.

Servicers do not need to complete buydowns on **SLMP compromise sales**. There may be circumstances where the expected proceeds from sale and VA's maximum claim payment do not cover the entire outstanding debt. A servicer may approve a compromise sale and write off the balance under some circumstances (See "Evaluating VA's losses - * Exception for "no-bid" compromise sale cases."). However, the servicer is required to provide a written statement that they will not pursue any party for the balance of the indebtedness, and therefore it would be wholly inappropriate for the servicer to attempt to negotiate an unsecured note for the shortfall.

Q) Why does VA need to contact the obligor before issuing a DOI?

A) VA has a statutory requirement to notify each and every obligor on a defaulted VA-guaranteed loan of the availability of counseling from VA, and of the alternatives and assistance VA can provide. VA usually fulfills this requirement by sending a form letter at the time the default is reported by the servicer, and then attempting to make personal contact with the obligor over the telephone. In SLMP cases, the DOI is frequently requested before the default becomes reportable to VA. Therefore, VA must complete these tasks at the time the DOI is requested.

Frequently Asked Questions

(cont.)

Q) Will the VA support additional documentation requirements by a servicer?

A) VA requires a minimum level of documentation for a DOI and an alternative approval. VA does not object to a servicer requiring documentation over and above what VA requires. However, if the documentation requirements become so excessive as to unnecessarily delay the request for a DOI or the approval of an alternative, VA may choose to take over the processing of the case, and no servicing fee will be payable.

Q) Why do the package requirements sometimes vary by VA office?

A) The minimum acceptable documentation is listed in the SLMP instructions. Regional offices may impose additional requirements due to differing conditions in their area of jurisdiction. However, these additional requirements must be reasonable, and must be intended to obtain information that is relevant to the decision at hand. If a servicer feels that a regional office's requirements are not reasonable, and they are unable to resolve the issue with the regional office management, we recommend that the servicer contact VA Central Office Staff to discuss the situation.

Q) Does the VA require a hardship in order to issue a DOI?

A) VA's decision regarding the insolvency of a default is based on many factors. Station management must use judgment in determining what does and does not constitute an insoluble default. In general, the information provided by the servicer must demonstrate that the borrower is, or will soon be, unable to maintain the payments on the loan, and would be unable to cover the short-fall from a private sale from his or her own resources without excessive hardship. Additional factors may be the borrower's culpability in causing the default, the willingness of the borrower to contribute to the short-fall, and the likelihood that VA will be able to collect a debt established against a borrower following foreclosure. As a general rule, however, there must be a documented hardship before VA will consider a default insoluble.

Q) How does the VA want Short Sales reported to credit agencies?

A) VA does not dictate how short sales or write offs must be reported to credit repositories. Servicers should rely on their counsel in deciding what to report.

Q) What does VA consider allowable closing costs?

A) On SLMP cases, the servicer is empowered to negotiate which closing costs will be charged to the seller. VA will apply a credit equal to the greater of the actual proceeds of sale or 88% of the appraised value of the property on the claim. Servicers are, however, encouraged to maximize sale proceeds and avoid giving borrowers and brokers the impression that these are distress sales in which normal buyer's expenses can be passed on to the Government.

Frequently Asked Questions

(cont.)

- Q) Does the mortgagor need to attempt a short sale prior to being considered for a DIL?***
- A) We do not require that a borrower list the property for sale before offering a DIL. We have no objection to a servicer requiring that a borrower make, or have made, a reasonable attempt to sell the property prior to offering a deed. However, we expect that a servicer will be reasonable and take into account the local market and the particular circumstances surrounding each case. If VA feels that a servicer's requirement that a borrower list the property for sale is unreasonable, and would cause an unnecessary delay and increase in VA's liability, the regional office will assume responsibility for processing the case, and no processing fee will be payable.
- Q) Do DILs need to be vacant to be approved?***
- A) No. A servicer may approve a DIL if the property is occupied. However, we request that the servicer notify the borrower that they must vacate the property shortly after they sign the deed.
- Q) Why is concurrent foreclosure encouraged on 6 month delinquencies, but discouraged on other cases?***
- A) Normally, VA establishes a cutoff under 38 CFR 36.4319f when an account is six months delinquent unless circumstances indicate that reinstatement is likely, or the cutoff was established earlier because the default was clearly insoluble. If a SLMP alternative being processed on a seriously delinquent loan fails to materialize and foreclosure is started only after the failure becomes apparent, the servicer will likely be unable to complete foreclosure before the cutoff date.

Concurrent foreclosure may unnecessarily increase VA's claim costs on accounts that are current or only moderately delinquent when the alternative is indicated. Since the cutoff date allows enough time for the servicer to complete foreclosure if the process is not started until 135 days after the date of first uncured default, the servicer does not risk losses under the cutoff by delaying foreclosure. Therefore, VA expects servicers to use judgment rather than routinely incurring unnecessary legal costs on such cases.