APPENDIX F. VA HOME RETENTION WATERFALL

When a borrower experiences repayment difficulty but indicates a desire to retain the home securing a Department of Veterans Affairs (VA)-guaranteed loan, servicers are to proceed through the numbered steps of this waterfall. Servicers determine and offer the most appropriate home retention option by contacting the borrower, reviewing the borrower's answers to a series of questions and, if necessary, by reviewing the loan and other details.

Step 1. The servicer determines whether the borrower was affected by a Presidentially declared disaster. For borrowers affected by such a disaster, the servicer may offer the borrower either a VA Disaster Modification or a Disaster Extend Modification, depending on whether the respective criteria are met. If the loan meets the criteria for both, the servicer will choose the option that provides a better outcome for the borrower. If the borrower cannot afford either option, the servicer proceeds to Step 2. If the borrower can afford such an option but does not agree to the modification, the servicer offers alternatives to foreclosure or proceeds to foreclosure, as appropriate. A servicer may contact VA for further evaluation of a loan, on a case-by-case basis. For borrowers not affected by such a disaster, the servicer proceeds to Step 2.

Step 2. The servicer asks if the borrower can afford to repay the missed payments in a lump sum and/or can afford to enter into a repayment plan with scheduled partial monthly mortgage payments. If the borrower can afford to repay the missed payments in a lump sum during the forbearance timeframe and/or could afford a repayment plan with scheduled partial monthly mortgage payment, the servicer offers the borrower a Special Forbearance to allow time to gather and submit the funds to reinstate. If the borrower cannot afford such payments, the servicer proceeds to Step 3. If the borrower reaches the end of the Special Forbearance timeframe and has not reinstated the loan, the servicer proceeds to Step 3. A servicer may contact VA for further evaluation of a loan, on a case-by-case basis.

Step 3. The servicer asks if the borrower can afford the current monthly mortgage payment, plus additional amounts, until the loan is current. If the borrower can afford the current monthly mortgage payment, plus additional amounts until the loan is current, the servicer discusses a Repayment Plan with the borrower. If the borrower can afford the servicer's terms, then the servicer offers the borrower a Repayment Plan. If not, the servicer proceeds to Step 4. If the borrower can afford such terms but does not agree to the Repayment Plan, the servicer offers alternatives to foreclosure or proceeds to foreclosure, as appropriate. A servicer may contact VA for further evaluation of a loan, on a case-by-case basis.

Step 4. The servicer asks if the borrower can afford the current monthly mortgage payment. If the borrower can, the servicer discusses the Traditional VA Modification with the borrower to see if new terms can bring the loan current, without increasing the monthly payment. If the borrower can afford the servicer's terms, then the servicer offers the borrower the Traditional VA Modification. If not, the servicer proceeds to Step 5. If the borrower can afford such terms but does not agree to the Traditional VA Modification, the servicer offers alternatives to foreclosure or proceeds to foreclosure, as appropriate. A servicer may contact VA for further evaluation of a loan, on a case-by-case basis.

Step 5. The servicer reviews the loan to determine if the terms could be modified under a 30-year modification to decrease the current monthly principal and interest payment by at least 10%. If so, the servicer offers the borrower the 30-year modification. If not, the servicer proceeds to Step 6. If the borrower does not agree to the 30-year modification, the servicer cannot proceed to the Veterans Affairs Servicing Purchase (VASP) review (i.e., the servicer cannot proceed beyond Step 5). The servicer offers alternatives to foreclosure or proceeds to foreclosure, as appropriate.

Step 6. The servicer asks if the borrower occupies the property as their residence. If the borrower does, the servicer proceeds to Step 6(a). If not, the servicer proceeds to Step 6(b).

(a) The servicer reviews the loan and determines if the terms could be modified under a 40-year modification to decrease the monthly principal and interest payment by at least 10%. If so, the servicer offers the borrower the 40-year modification. If not, the servicer proceeds to Step 7. If the borrower does not agree to the 40-year modification, the servicer cannot proceed to VASP review (i.e., the servicer cannot proceed beyond Step 6(a)). The servicer offers alternatives to foreclosure or proceeds to foreclosure, as appropriate.

(b) The servicer reviews the loan and offers the borrower the 40-year modification. If the borrower does not agree to the 40-year modification, the servicer cannot proceed to VASP review (i.e., the servicer cannot proceed beyond Step (6)(b)). The servicer offers alternatives to foreclosure or proceeds to foreclosure, as appropriate.

Step 7. The servicer reviews the loan for the VASP. If the loan and borrower meet the qualifying criteria, the servicer proceeds to Step 8. If not, the servicer offers the borrower the 40-year modification, regardless of any reflected decrease in principal and interest. If the borrower does not agree to the 40-year modification, the servicer cannot proceed to VASP review (i.e., the servicer cannot proceed beyond Step 7). The servicer offers appropriate alternatives to foreclosure or proceeds to foreclosure, as appropriate.

Step 8. The servicer determines whether a Trial Payment Plan (TPP) is necessary. If the TPP is not necessary and the borrower can afford the new payment calculated for the VASP, the servicer offers the borrower the VASP. If the TPP is necessary and the borrower can afford the new payment calculated under the VASP, the servicer offers the VASP, subject to the successful completion of the TPP. If the borrower cannot afford the VASP or does not agree to the VASP, the servicer offers alternatives to foreclosure, as appropriate.