



U. S. DEPARTMENT OF VETERANS AFFAIRS
Regional Office, Fort Snelling
1 Federal Drive
St. Paul, MN 55111-4050

July 5, 2000

REGIONAL LOAN CENTER MEMORANDUM NO. 00-16

TO: ALL LENDERS, HOLDERS, AND SERVICERS

SUBJ: LOAN GUARANTY REQUIREMENTS REGARDING PROPERTIES LOCATED IN MINNESOTA AFFECTED BY SEVERE STORMS AND FLOODING MAY 17, 2000, AND PROPERTIES LOCATED IN NORTH DAKOTA AFFECTED BY SEVERE STORMS AND FLOODING JUNE 12, 2000

1. This is to notify you of VA requirements regarding loans secured by properties in the disaster areas designated by Federal authorities as a result of the severe storms and flooding that hit the state of Minnesota starting May 17, 2000, and the state of North Dakota starting June 12, 2000. The affected counties for Minnesota are: *Dodge, Faribault, Fillmore, Freeborn, Houston, Mower and Winona*. The affected counties for North Dakota are: *Benson, Bottineau, Cass, Eddy, Foster, Grand Forks, Griggs, Kidder, McHenry, McLean, Nelson, Pierce, Ramsey, Ransom, Sheridan, Traill, Walsh and Wells*.

2. Loan Origination Issues -

a. Any loan closed prior to **May 17, 2000, for Minnesota or prior to June 12, 2000, for North Dakota**, is eligible for VA guaranty without regard to the disaster. The "Loan Servicing" information in paragraph 3 applies to these cases.

b. For a loan on a property located within **the affected counties listed above**, appraised on or before **May 17, 2000, for Minnesota** or on or before **June 12, 2000, for North Dakota**, and not closed prior to that date, to be eligible for VA guaranty:

1) Both of the following certifications must be obtained and made a part of the complete loan origination file:

a) Lender Certification - This is to affirm that the property which is the security for VA loan number _____ has been inspected to ensure that it was either not damaged in the recent disaster or has been restored to its pre-disaster condition or better.

 (lender signature) (lender title) (date)

b) Veteran Certification - I have inspected the property located at _____ and find its condition

now to be acceptable to me. I understand that I will not be charged for any disaster-related expenses, and now wish to close the loan.

(veteran signature)

(date)

2) The "Remarks" section of VA Form 26-0286, VA Loan Summary Sheet, must be annotated "Lender and Veteran Disaster Certifications On File." Additionally, if local law requires the property to be inspected and approved by the local building inspection authority, a copy of the appropriate local report(s) must be maintained. Neither VA nor the veteran purchaser shall bear the expense of any disaster-related inspections or repairs.

3) If there is an indication that the property, despite repairs, will be worth less at the time of loan closing than it was at the time of appraisal, then the lender must have the VA fee appraiser update the original value estimate. The payment of the appraiser's fee for that service will be a contractual matter between the buyer and seller. If the property value has decreased, the loan amount must be reduced accordingly.

4) The lender should ascertain prior to closing that the veteran's employment and income have not changed since the loan application. If at the time of loan closing the veteran is no longer employed or family income has been reduced, that should be reported to VA or the automatic underwriter, as appropriate, for evaluation prior to closing the loan.

3. Loan Servicing Issues -

a. VA encourages holders of guaranteed loans in **the affected counties** to extend every possible forbearance to borrowers in distress through no fault of their own. VA Regulations regarding "Prepayments" (38 CFR 36.4310), "Advances and other charges" (38 CFR 36.4313), "Extensions and Reamortizations" (38 CFR 36.4314), and "Supplemental Loans" (38 CFR 36.4355) may be of assistance in appropriate cases. It is the loan holder's responsibility to inspect damages to properties, counsel borrowers concerning assistance which may be available to them, and provide this office with a report which outlines the findings and actions for each damaged property. Loan holders should contact this office before consenting to an insurance adjustment where the proceeds will not be sufficient to pay the loan balance or restore the security.

b. Please include a copy of the attached VA bulletin with any correspondence you send borrowers in the disaster areas. The information it contains should be beneficial to all parties involved.

c. Although the loan holder is ultimately responsible for determining when to initiate foreclosure and for completing termination action, we are requesting that holders establish a 90 day moratorium from May 17, 2000, for Minnesota or from June 12, 2000, for North Dakota, on initiating new foreclosures on **properties located in the affected counties**. This includes individuals who live outside of the disaster areas but have lost employment due to business disruption of employers located within disaster areas. Since VA is requesting this, the provisions of 38 CFR 36.4319(f) will not be applied by VA during the moratorium to

loans secured by properties in the disaster areas. Also, the period of the moratorium will be considered "VA-requested forbearance" for purposes of the no-bid avoidance provisions of 38 CFR 36.4321. There are two exceptions to the 90 day moratorium on new foreclosures:

1) When a default is clearly insoluble and there is no likelihood of reinstatement, and the holder requests and receives VA prior approval to initiate foreclosure during the period of the moratorium, or

2) When a foreclosure sale, the product of an insoluble default which occurred prior to the disaster, was already scheduled. The sale should be delayed only to the extent necessary to determine whether the liquidation appraisal remains accurate, and for such time as it may take the holder to obtain acceptable hazard insurance loss settlement for purposes of 38 CFR 36.4326.

d. VA Regulations (38 CFR 36.4326) require that lenders and holders ensure that homes financed with the assistance of VA-guaranteed loans be sufficiently insured against hazards. 38 CFR 36.4325(b) authorizes VA to adjust any claim resulting from a loan foreclosure in which the lender or holder failed to properly procure hazard insurance. The burden of proof is upon the lender or holder to establish that no increase in VA's ultimate liability is attributable to the failure of the lender or holder to have the property properly insured.

4. If there are any loan origination related questions, please call 1-800-827-0611, extension 5423. For loan servicing related questions, contact us at 1-800-827-0611, extension 5426. We appreciate your cooperation in this matter.

/s/D. F. MUNRO
D. F. MUNRO
Loan Guaranty Officer

Attachment:
Bulletin

BULLETIN

1. This bulletin is distributed by the U.S. Department of Veterans Affairs (VA) to provide information during major disasters. The information given below is primarily for owners of homes guaranteed by VA.

2. It is very important that you contact your lender or holder as soon as possible regarding your loss. You are not excused from making your regular monthly loan payments even if your home is uninhabitable.

You should discuss possible extension or reamortization of your loan, or other arrangements if you are unable to make your payments on time.

You should also have your lender or holder explain procedures regarding repairs to your property, payment to contractors, etc.

3. Do not make a hasty settlement on insurance. If possible, get at least two estimates from licensed contractors for cost of repairs or rebuilding. Insurance checks for personal property and living expenses should be made payable only to the homeowner. Checks for real property should be made payable to the homeowner and the mortgagee.

4. Where property is severely damaged but repairable, if possible, get the city engineer's office to make an inspection for structural damage. If a city engineer's inspection is not obtainable, an inspection by a licensed engineer should be obtained.

5. Do not pay your loan in full before checking with SBA (Small Business Administration) on a loan for the uninsured portion of your loss.

6. Be sure to check all sources, especially the Federal Emergency Management Agency (FEMA) at the disaster center for maximum assistance available. FEMA may be reached at **1-800-462-9029**. FEMA's web page is: <http://www.fema.gov>

7. To contact the St. Paul, MN. Regional Loan Center *regarding damage from the severe storms and flooding that hit Minnesota beginning May 17th and North Dakota beginning June 12th*, call: **1-800-827-0611** extension **5426**. If you are receiving VA checks, notify your local post office and the VA Regional Office of your change of address if you will not be receiving mail at your regular address.

8. For information on **VA benefits other than home loans**, call: **1-800-827-1000**.

The affected counties for Minnesota are: *Dodge, Faribault, Fillmore, Freeborn, Houston, Mower and Winona*. The affected counties for North Dakota are: *Benson, Bottineau, Cass, Eddy, Foster, Grand Forks, Griggs, Kidder, McHenry, McLean, Nelson, Pierce, Ramsey, Ransom, Sheridan, Traill, Walsh and Wells*.