



DEPARTMENT OF VETERANS AFFAIRS
Regional Office
210 Franklin Road S.W.
Roanoke, VA 24011

July 29, 1998

LOAN GUARANTY INFORMATION LETTER NO. 26-98-18

In Reply Refer To:
314/261

TO: ALL LENDERS, HOLDERS, AND SERVICERS

SUBJ: NEW REFUNDING PROCEDURES AND CLARIFICATION
OF TITLE 38 CFR 36.4319(a) - LEGAL PROCEEDINGS

I. New refunding procedures:

Background. The refunding of VA-guaranteed loans has always been a time-consuming, labor-intensive process. Loan holders frequently took months, and even years, to supply a claim for refunding and an acceptable assignment of the loan to VA. In the past, VA was able to collect payments from the veteran-borrower during the interim period, and hold those funds in suspense until the loan could be established in the Portfolio Loan System. Now that VA has contracted the servicing of our loan portfolio, we no longer have the capability to efficiently account for funds held in suspense. Therefore, a new procedure was needed to establish the account with the contract servicer as quickly as possible.

Summary of Changes. The major changes in the way refunded loans will be handled are:

- a. Loan holders will now be requested to submit the claim and assignment documents separately (See Enclosure);
- b. VA will establish a settlement date that is 60 days after the date VA approves the refunding request. VA will pay interest and advances up to the settlement date regardless of any prior 4319f cutoff, provided VA Form 26-1874, Claim Under Loan Guaranty, is received prior to the settlement date;
- c. VA will calculate the claim payable on the settlement date, even if no claim form has been received from the holder. The claim will not be vouchered for payment, however, until acceptable title documentation has been received;
- d. If no supporting documentation regarding liquidation expenses and advances has been received by the settlement date, these items will not be reimbursed; and
- e. **No supplemental claims will be paid on refunding claims, except to correct errors made by VA.**

II. Notice to VA regarding legal proceedings (Title 38 CFR 36.4319(a))

Background. Holders and servicers are required to notify VA when they bring suit or become a party in a proceeding on or in connection with a guaranteed loan. Typically, this involves notice that the loan was referred for foreclosure (and a timely copy of the notice of sale or repossession) or that the borrower has filed bankruptcy or some other suit to stop termination of the loan. Unfortunately, many times VA receives copies of bankruptcy notices/motions and documents submitted on behalf of the holder which are not properly identified with the VA loan identification number. Since the consolidation of the servicing activities to this office and our implementation of folderless servicing, we are unable to research improperly identified bankruptcy documents or physically retain the documents prior to paying claims under guaranty.

Procedural change Effective immediately, holders and servicers should ensure that we are notified with brief properly identified letters/memoranda by mail or fax, (540) 857-2066, containing pertinent data (borrower's name, what was filed: bankruptcy; motion; dismissal; discharge, replevin action, etc., VA loan identification number, case number, and date filed) as soon as possible. This will enable us to immediately update our electronic record and avoid imposition of claim adjustments or penalties. Copies of the procedural papers must be included as attachments to the claim under guaranty. There is no change, however, with regard to timely submission of notices of sale or repossession and statements of account, or ordering liquidation appraisals.

Reminder: The refunding procedure has changed (notably, no supplemental claims) and copies of bankruptcy documentation must be included with claims under guaranty.

W. D. Hogan
Loan Guaranty Officer

Enclosure

SAMPLE

In Reply Refer To:

ABC Mtg. Co.
ATTN: Bob
100 Main Street
Anytown, VA 12345

261
14-14-6-0123456
ABC # 11223344
SOLDIER, JOE

RE: Refunding Approval

VA (Department of Veterans Affairs) has decided to refund the above cited loan. All efforts to terminate this account should cease immediately.

Settlement Date

VA is establishing August 1, 1998 as the settlement date for the refunding. Unless there is a previous cutoff date established under 38 CFR 36.4319f, VA will reimburse you for interest and advances that accrue on the account through this date, even if you submit VA Form 26-1874, Claim Under Loan Guaranty, before then. If there is a prior cutoff date in effect, VA will advance the cutoff date to August 1, 1998, if a completed VA Form 26-1874 is received by this office prior to that day. Otherwise, the prior cutoff date will remain in effect.

Claim Computation and Payment

VA Form 26-1874 may be submitted separately from the necessary title documentation listed in the attached instructions. **It is very important that you accurately complete and submit VA Form 26-1874 before August 1, 1998.** If you fail to do so, VA will calculate your claim payment based on the best information at our disposal on that day. This could result in a substantial under-payment to you, as **no supplemental claims will be paid on refunding claims.** While the principal balance and interest due can be easily estimated from available information, VA will not estimate liquidation expenses or advances. If VA has not received an itemized listing of these items (on VA Form 26-1874 or otherwise,) along with supporting documentation such as billing statements and receipts, before August 1, 1998, these items will not be reimbursed. While VA will calculate the claim on the settlement date, the payment will not be vouchered until all the listed documents have been received and approved by our legal counsel.

2.
ABC Mtg. Co.

Tax and Insurance Bills

You are responsible for paying all tax and insurance bills that can be paid prior to the settlement date. Tax and insurance bills paid after the settlement date or after you have submitted VA Form 26-1874, whichever is earlier, will not be reimbursed. Such bills should be annotated with **the new VA Loan Identification Number, 14-14-8-0123456**, and forwarded to Seasons Mortgage Group, ATTN: Tax/Insurance Department, 9325 Midlothian Turnpike, Suite A, Richmond, VA 23235. The new refunded loan number is identical to the old GI loan number except the “8” in the middle used to be a “6”.

We appreciate your assistance in completing this refunding as quickly as possible. If you need further information, please contact me at (540) 857-2135.

Sincerely,

John Doe
Loan Service Representative LSR