

**DEPARTMENT OF VETERANS AFFAIRS
COMPROMISE SALE PROGRAM**



116 N. Jefferson Street
Roanoke, VA 24016

WWW.VBA-ROANOKE.COM

COMPROMISE AGREEMENT INFORMATION

If the borrower is unable to sell the property for an amount that is greater than or equal to what he/she owes on the loan, including closing costs, VA may pay a "compromise claim" for the difference in order to allow the private sale to go through. The borrower can sell the property to a buyer who gets his/her own financing or to a buyer who wants to assume the loan. However, with a compromise assumption, the lender does have to agree to have the amount of its guaranty reduced by the amount of the claim payment.

In order to be considered for a compromise sale, several factors must be considered:

- The property must be sold for fair market value.
- The closing costs must be reasonable and customary.
- The compromise sale must be less costly for the Government than foreclosure.
- There must be a financial hardship on the part of the seller.
- On loans that originated on or before December 31, 1989, the lender must be willing to write off any debt above the max guaranty.
- There must be no second liens or other liens (unless the amount is insignificant). In situations whereby there are second liens or other liens, the seller can request that the lien holder consider releasing the lien and converting the loan to a personal loan.
- The seller must first obtain a sales contract in order to be considered for the program.
- To protect the seller's interest, the seller should make the sales contract contingent and/or subject to the approval of a VA compromise sale.

Once it is determined that a homeowner may qualify for VA compromise sale, the realtor or the homeowner should contact the homeowner's servicer. A majority of the servicers have a Loss Mitigation Department.



NOTE: The VA Home Loan Program is no longer divided up into jurisdictions. VA representatives on a nationwide basis now service all VA loans. The borrower/servicer should be able to provide the VA representatives contact information if assistance is needed. You may always contact our office at 1-800-933-5499. We will be happy to provide you with the correct contact information. Web address is:
www.benefits.va.gov/homeloans

GENERAL INFORMATION REGARDING PROCESSING A VA COMPROMISE SALE AGREEMENT



SELLER REQUIREMENTS:

1. Once it is apparent that the seller needs to consider the VA Compromise Sale Program, the seller should contact his/her servicer.
2. A financial statement should be provided and signed by all parties.
3. The seller should complete a letter of request for a compromise sale to include hardship information.
4. A Compromise Sale Agreement Application should be completed and can be obtained from the servicer.
5. On loans that originated on or before December 31, 1989, the servicer is required to write off any amount over the max. guaranty of the loan.

REALTOR AND/OR SELLER REQUIREMENTS:

Upon receipt of an acceptable offer the realtor and/or the seller should contact the seller's servicer and advise them that they are in the process of submitting a compromise package. This package should contain the following information:

1. Sales contract signed by all parties with a contingency which reads: "This offer is contingent upon approval of a VA compromise sale."
2. Good faith estimate projecting closing costs. This document is usually prepared by the real estate agent to facilitate processing (i.e. estimated HUD1).
3. Letter to the servicer requesting consideration of a compromise sale.
4. Financial data and supporting documentation.
5. Compromise Sale Agreement Application.

OTHER REQUIREMENTS TO PROCESS A VA COMPROMISE SALE

- ❑ A current VA appraisal must be obtained. If the buyer is obtaining a VA loan, the buyer's VA appraisal can be used provided the buyer will agree to the same. Otherwise, the seller's servicer will have to complete a VA appraisal.
- ❑ Title is reviewed. As stated earlier, in situations whereby there are second liens or other liens, the seller can request that the lien holder consider releasing the lien and converting the loan to a personal loan.
- ❑ A **compromise assumption** will not be processed without first receiving a statement from the servicer that they are willing to have their guaranty amount reduced by the amount of the claim payment.
- ❑ If it appears a compromise assumption is feasible, **the buyer must qualify**.

WHAT HAPPENS WHEN A COMPROMISE SALE IS APPROVED?

- ❑ A copy of the approval letter from the servicer is submitted to the closing attorney prior to closing.
- ❑ The closing attorney and/or his staff will review the approval letter.
- ❑ Approval of any additional amounts need to be submitted to the servicer well in advance of the closing date.
- ❑ At the closing table, net proceeds are paid directly to the obligor's servicer who then files a claim with VA for the difference between the proceeds and the total indebtedness.
- ❑ **VA CANNOT** pay a compromise claim beyond what the loan was guaranteed for.

Homeowner BEWARE

- ❑ Entitlement - Should VA agree to pay the difference between the sales proceeds and the total debt to complete the compromise sale process, the portion of the homeowner's entitlement used to guaranty this loan will remain tied up until VA is reimbursed in full.



SUMMARY

SERVICERS CAN CONSIDER A COMPROMISE SALE WHEN ONE OF THE FOLLOWING FINANCIAL HARDSHIPS EXIST:.

- VETERAN/SELLER EMPLOYER OR FINANCIAL SITUATION WILL REQUIRE HE/SHE TO RELOCATE.
- A DECREASE IN INCOME.
- MAJOR MEDICAL EXPENSE.
- THE DEATH OF A PRINCIPAL WAGE EARNER, SPOUSE OR FAMILY MEMBER.

SOME EXAMPLES OF WHAT IS NOT CONSIDERED A FINANCIAL HARDSHIP

- DESIRES A LARGER HOME
- NO LONGER LIKES THE NEIGHBORHOOD
- HOMEOWNER OWNS OTHER HOMES AND/OR HAS SUFFICIENT ASSETS HE CAN LIQUIDATE.
- THE PROPERTY VALUES ARE NO LONGER A SOUND INVESTMENT.

The following are some obstacles that may cause, but are not limited to, the reason a compromise sale agreement may be delayed:

1. Illegible copies of the required documents.
2. One of the parties on the title refuses to sign the contract.
3. Inability of the veteran/seller to meet hardship requirements.
4. There are other significant liens recorded against the property.
5. The other lien holder is unwilling to convert the loan to a personal loan.
6. Loan is not guaranteed by VA.
7. The value of the property will satisfy the total indebtedness (equity).
8. The shortage exceeds the VA's maximum guaranty amount.
9. Veteran/Seller is deceased and the administrator or executor of the estate is unknown.
10. The offer is substantially lower than VA's appraised value.
11. Veteran/Seller filed bankruptcy.
12. A breakdown of the buyer's closing costs were not provided.

