

Plain Language Summary Document

AS16(P): Loan Reporting and Partial or Total Loss of Guaranty or Insurance

Summary of the rule (Must be 100 words or less): This proposed rulemaking would amend loan reporting requirements for lenders that participate in the VA-guaranteed home loan program and circumstances when VA would assert a defense for partial or total loss of guaranty or insurance for lenders and holders. These proposed amendments would support VA's ongoing efforts to modernize and transform technology and processes within the guaranteed home loan program, capitalizing on industry standards. In addition, the proposed regulatory changes would update and enhance the loan guaranty reporting requirements for lenders, providing veterans stronger protections against noncompliant loans through improved transparency and oversight of the program.

What does regulation do? The proposed rulemaking would amend 38 C.F.R. § 36.4303 to require lenders to use an application programming interface (API) designated by the Secretary when reporting a loan and remitting the funding fee to VA for a Loan Guaranty Certificate (LGC). Lenders would also make required certifications and submit Veteran certifications using the API. By using APIs, VA will more efficiently and effectively support veterans, lenders, servicers, and other stakeholders who participate in the VA-guaranteed home loan program. VA believes the standardization of data reporting would lead to better accuracy, consistency, and clarity surrounding the loans VA guarantees and would promote a more consistent approach between VA and lenders.

The proposed rulemaking would also amend 38 C.F.R. § 36.4328 to clarify criteria for a partial or total loss of guaranty or insurance. These changes would ensure lenders, holders, and servicers have a clear understanding of how failure to meet VA's statutory and regulatory requirements affects the guaranty to be paid by VA.

Under this proposed rulemaking, Veterans would have stronger protections against lenders closing nonconforming loans through increased VA oversight capabilities and authorities. Additionally, lenders and holders would have more assurance and confidence in using their automatic authority to close VA-guaranteed loans and in the loan guaranty process.

Are the provisions, services, or benefits associated with this rulemaking current practice or new to Veterans? The proposed provisions would support VA's ongoing efforts to modernize and transform technology and processes within the guaranteed home loan program, which would provide Veterans stronger protections against lenders closing loans that are noncompliant with VA's requirements through increased VA oversight capabilities and authorities.

Who does it impact? Lenders, Veterans, Holders, and Servicers.

Why is it happening/important? This proposed rulemaking is important as the program has experienced significant growth. Since the program's inception in 1944, Congress has continually expanded coverage, added features, and sought to maximize the program's appeal and utility to Veterans. VA has backed more than 28 million home loans, including more than 1.2 million loans with a combined loan balance of \$152 billion in 2023. VA-guaranteed home loans now comprise more than 10% of the residential mortgage market. In response to this growth, VA has an obligation to update its technologies and revise its regulations so that risks to Veterans and the Government are minimized. Use of the updated technology would also create efficiencies for lenders.

Why are we doing it? Veterans would have stronger protections against lenders closing nonconforming loans. For lenders, using an API to report the loan would create efficiencies. The designated API for loan reporting would allow for full automation of the funding fee payment, loan reporting, and issuance of the LGC, and would enable reporting of loan data using industry standards. Additionally, VA would be able to cite defenses based on fraud, material misrepresentation, and servicing failures, and lenders, holders, and servicers will have a clearer understanding of VA's recourse options when these issues are determined.