

VA Servicing Purchase – Bankruptcy Testing Template

Test Question 1:

Did the servicer properly handle bankruptcy-related requirements when reporting the TPP Complete event for a borrower who filed for bankruptcy during the Trial Payment Plan (TPP)?

Citation: VA Servicer Handbook M26-4, Chapter 9.07(a)(2)(a)

Exception Statement:

The servicer failed to comply with VA Servicer Handbook M26-4, Chapter 9.07(a)(2)(a) by not providing evidence of bankruptcy court approval or acquiescence to the VASP for a borrower who filed Chapter 13 bankruptcy during the TPP, or by proceeding with VASP evaluation for a borrower who filed Chapter 7 bankruptcy while bankruptcy proceedings remained open. This non-compliance violates the regulatory requirement that servicers must obtain court approval for Chapter 13 cases and wait for closure of Chapter 7 proceedings before qualifying borrowers for VASP, thereby potentially exposing VA to legal and financial risk.

Test Question 2:

When drafting the VASP loan modification documents for a borrower whose VA-guaranteed loan debt was discharged through Chapter 7 bankruptcy, did the servicer include the required legal statement regarding discharged debt?

Citation: VA Servicer Handbook M26-4, Chapter 9.08(c)(3)

Exception Statement:

The servicer failed to comply with VA Servicer Handbook M26-4, Chapter 9.08(c)(3) by omitting the mandatory legal statement in the VASP loan modification document for a borrower whose VA-guaranteed loan debt was discharged through Chapter 7 bankruptcy. The required statement clarifies that the borrower is entering into the modification voluntarily without affirming the previously discharged debt and protects against any attempt to collect the discharged obligation. This omission constitutes a material violation of VA regulatory requirements and exposes both the servicer and VA to potential legal liability for attempting to enforce a discharged debt.