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CHAPTER 14. CLAIMS

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# 14.01 CLAIMS (38 CFR 36.4324)

# a. Servicers must submit claims to VA for reimbursement of any fees, costs, and losses associated with the termination of a guaranteed home loan within 365 days of termination. If a servicer fails to submit a claim within the required timeframe, they may submit an appeal late claim event to VA for consideration. Refer to Chapter 16, Appeals, of this handbook for more information.

# b. Claims may be submitted on the following:

1. Foreclosure.

2. Deed-in-Lieu (DIL) of foreclosure.

3. Compromise sale.

4. Terminated mobile home.

5. Refund. On refunded loans, the servicers must submit the refund claim within 60 days of VA’s approval date. Refer to the Chapter 9, Refunds, of this handbook for more information.

### 14.02 ELIGIBILITY FOR CLAIM PAYMENT

a. The Basic Claim or Supplemental Claim event must be submitted electronically by the servicer through the Servicer Web Portal (SWP). VALERI presents the claim for review once the event is processed.

b. Further review is required for the following situations:

1. The Servicemember Civil Relief Act (SCRA) is included on the Basic Claim Event.

2. Insurance Loss Proceeds are included in the Basic Claim Event.

3. An Invalid Sale Results Event was reported for the current default.

4. There are pending regulatory infractions (RIs) on the loan.

5. The claim is a Refund Claim.

6. The claim is for a Texas Veterans Land Board Loan.

c. Servicers have two options when filing a claim through the SWP:

1. Basic Claim Event. This initial claim event should include all credits,

advances and expenses associated with the termination of the loan. VA defines loan termination as:

(a) Foreclosure. The date of legal termination as defined under state law. Refer to Appendix G, State Foreclosure Process and Statutory Bid Information.

(b) DIL of Foreclosure. The date the deed is recorded or the date the deed is sent for

recording.

(c) Compromise Sale. The compromise sale settlement date per the Closing Disclosure.

2. Supplemental Claim. The supplemental claim(s) should include all credits,

advances, or expenses which were omitted from any previous claim.

d. VALERI rejects the Basic Claim or Supplemental Claim submitted by the servicer if any of the following conditions exist:

1. Loan is not guaranteed.

2. Submitted more than 365 days after loan termination.

3. No termination event previously submitted by the servicer.

4. Bid was total debt and the property was not acquired by VA.

### 14.03 CLAIM PAYMENT CALCULATION

a. VALERI calculates the final claim payment based upon total eligible indebtedness (TEI), maximum guaranty, and credit to the indebtedness.

b. To determine the gross claim payment for a loan terminated through compromise sale, DIL of foreclosure, or foreclosure, VALERI subtracts the credit to the indebtedness (net value or actual proceeds of the sale) from its calculation of the TEI. To determine the claim payment for a refunded loan, VALERI uses its calculation of TEI as the claim payment. VA may adjust the TEI calculation during a review of a non-routine claim if there are unsubstantiated items.

c. TEI includes the following:

1. Unpaid Principal Balance (UPB). VALERI calculates the unpaid principal balance as of the date of the foreclosure sale (or the date of confirmation of the sale in confirmation/ratification of sale states), closing date of the compromise sale (Closing Disclosure settlement date), or date the DIL is recorded or submitted for recording (depending on which is reported in the Deed in Lieu Complete event). VALERI calculates the unpaid principal balance by amortizing the loan based upon the original or modified loan amount. VALERI compares this amount to the amount reported with the most recent delinquency status update (DSU), and uses the lower of the two amounts to calculate the TEI.

2. Accrued Unpaid Interest. VA pays interest on the unpaid principal balance and

advances. Interest on these items is allowed up to the date of loan termination, as long as the date of termination is less than or equal to 210 days from the due date of the last paid installment, plus the maximum allowable state foreclosure timeframe. For example, if the maximum allowable state foreclosure timeframe is 180 days, VA allows interest up to 390 days (210 + 180) from the due date of the last paid installment.

(a) VA will pay interest beyond the maximum timeframe if the bankruptcy filed event was reported (VA automatically adds 180 days to the maximum interest timeframe when the bankruptcy filed event is reported). Updates to the maximum allowable state foreclosure timeframes are published in the Federal Register.

(b) VALERI calculates accrued unpaid interest based upon the interest rate reported at loan origination or modification, and adjusts for any interest rate changes reported to VA with the Basic Claim event.

3. Interest on Unpaid Principal Balance. VA pays accrued daily interest on the unpaid principal balance of the loan. The interest applied to any month’s unpaid principal balance is the interest rate on the loan for that month.

4. Interest on Advances. VA pays interest on amounts advanced prior to the loan termination date. VALERI calculates accrued daily interest on advances using the interest rate on the loan. For example, for a loan with a six percent fixed rate of interest, VA will pay six percent on an advance from the day it was advanced to the date of loan termination, subject to the maximum allowable timeframe. Similarly, VALERI calculates the interest on an advance on an Adjustable Rate Mortgage (ARM) based upon each month’s unique interest rate.

(a) VALERI calculates the interest amount only after it subtracts the escrow credit balance from the earliest advances to the account. For example, if the current escrow credit balance is $500, and the first advances made to the account were $200 for taxes, $200 for insurance, and $100 for mowing, VALERI eliminates any interest owed on these advances from the total interest calculation.

5. Liquidation Expenses. VA allows certain liquidation expenses, up to maximum allowable amounts, in the calculation of TEI. The maximum allowable amount for each liquidation expense varies by state and type of foreclosure process (judicial or non-judicial). Maximum allowable amounts for liquidation expenses are located on the VALERI Fee Cost Schedule document located on the VALERI internet at http://www.benefits.va.gov/HOMELOANS/servicers\_valeri.asp. Allowable liquidation expenses are determined based on the paid date reported by the servicer on the claim event in conjunction with the maximum allowable fee cost schedule, frequency schedule and aggregate allowable, with exception to attorney fees. VALERI calculates liquidation expenses based upon information reported with the Basic Claim event. Liquidation expenses are grouped into the following categories:

(a) Attorney Fees. Allowable attorney fees are determined based on the termination date of the loan. Fees must be reported separately at the time of the claim and include:

(1) Foreclosure attorney fees. Foreclosure re-start attorney fees after cancellation of a foreclosure sale. (Note: VALERI automatically pays a restart fee of “0” on the claim. These fees may be paid to the servicer through the appeal claim process.)

(2) DIL attorney fees.

(3) Bankruptcy attorney fees.

(4) Ad litem/curator fees/warning order attorney fees.

(5) Attorney service taxes.

(6) Mediation fee. (Note: VALERI automatically pays a mediation fee of “0” on the

claim. These fees may be paid to the servicer through the appeal claim process.)

(b) Appraisal Fees. Allowable appraisal fees include:

(1) Cost of having a VA appraiser determine the market value of the property.

(2) Cost of having a VA appraiser update the market value of the property. (Note:

VALERI automatically pays an appraisal update of “0” on the claim. These fees may be paid to the servicer through the appeal claim process.)

(3) Cost of a court-ordered appraisal.

(4) Appraisal service taxes.

(5) Mileage expenses for a VA appraiser to travel to the property.

(6) **Note**: The actual VA appraisal fee is payable in addition to the maximum guaranty on a claim. This allowable appraisal amount is determined based on the appraisal completion date reported by the servicer on the Basic Claim event.

(c) Title Expenses. Allowable title expenses include expenses incurred for:

(1) Initial termination title review (search of records performed by a title company or

attorney prior to a foreclosure sale to ensure a valid foreclosure).

(2) Title updates that occur prior to termination (close examination of all public

records that affect the title to the property, including reviewing past deeds, wills, and trusts).

(3) Initial termination title commitment/guaranty from the title company (written

Commitment, received from the title company stating the conditions under which they will insure title to the property).

(4) Final termination title documentation (required endorsement fees).

(5) Title service taxes.

(d) Filing Fees. Allowable filing fee expenses include expenses incurred for the recording or filing of:

(1) Bankruptcy-related motions (specifically, the motion for relief of stay).

(2) Index number.

(3) Lis pendens.

(4) Summons.

(5) Petition.

(6) Complaint.

(7) Judgment.

(8) Request for judicial intervention.

(9) Military affidavit.

(10) Posting notice of sale.

(11) Notice affidavit.

(12) Notice of publication affidavit.

(13) Order confirming sale.

(d) Recording Fees. Allowable foreclosure recording fees include amounts charged by public officials for recording or filing of:

(1) Substitution of trustee (appointment, agreement, or document).

(2) Notice of default/foreclosure notice/notice of pendency/power of attorney.

(3) Summons.

(4) Judgment.

(5) Certificate of non-redemption.

(6) Sheriff's/trustee's certificate of sale.

(7) Assignment of sheriff's/trustee's certificate of sale.

(8) Foreclosure deed (sheriff's, trustee's, referee's, or commissioner's deed).

(9) Assignment of sheriff's/trustee's deed.

(e) Deed to VA. Allowable DIL recording fees include amounts charged by public officials for recording or filing of:

(1) Warranty deed from owner to holder.

(2) Estoppel affidavit.

(3) Deed to VA.

(4) Deed of re-conveyance/full release/satisfaction of mortgage.

(f) Foreclosure Facilitation Fees. Allowable foreclosure facilitation fees include amounts charged by public officials to facilitate the foreclosure process, including:

(1) Sheriff's/administrator's/commissioner's fees and costs (including court costs).

(2) Trustee/referee/master in equity fees.

(3) Auctioneer's fees.

(4) Court recorder fees.

(5) Prothonotary/clerk’s fees.

(6) Attorney/notary fees.

(g) Other Fees and Costs. Allowable other fees and costs include expenses for:

(1) Publication of sale (advertisement in appropriate newspaper or on the internet).

(2) Personal service of papers on any necessary party of interest.

(3) Statutory required mail.

(4) Service of papers by publication.

(5) Service of papers by certified mail.

(6) Investigation fees related to service. (**Note**: VALERI automatically pays an

investigation fee of “0” on the claim. These fees may be paid to the servicer through the appeal claim process.)

(7) Non-extinguishable liens.

(8) Committee fees and costs.

(9) Transfer tax/documentary stamps.

(10) Municipal lien certificate.

(11) Title V septic (Massachusetts) fees and costs. (**Note**: VALERI automatically pays Title V septic in addition to maximum guaranty.)

(12) Poundage.

(13) Mennonite notices.

(14) Relocation assistance/borrower incentive.

(15) Property inspections.

6. Advances. VA allows advances in the calculation of TEI, up to maximum allowable amounts. When properties are conveyed, VA will pay lienable items such as accrued taxes, water, sewer, special assessments, and ground or water rents up to 30 days past the date of conveyance to VA. The maximum allowable amount for each advance varies by state. Maximum allowable amounts for advances are located on the VALERI Fee Cost Schedule at: <http://www.benefits.va.gov/homeloans/servicers_valeri.asp>. VALERI calculates advances based on the paid date reported by the servicer on the claim event and allowable up to the interest cutoff date or termination, whichever is earlier, with exception of taxes. Advances are grouped into the following categories:

(a) Advances for Insurance. Allowable insurance advances include amounts advanced for payment of flood, homeowners/fire/hazard, wind, earthquake, and force placed insurance coverage prior to the loan termination date.

(b) Advances for Taxes. Allowable advances for taxes include amounts advanced for payment of city, county/parish, school, levy, township, municipal utility district (MUD), public utility district (PUD) taxes, special assessments, and ground rent payments. Advances for taxes paid after the loan termination date are not allowable if VA did not acquire the property.

(c) Advances for Property Preservation. Allowable property preservation expenses include amounts advanced for:

(1) Yard maintenance: Mowing, shrub trimming, and snow removal services.

(2) Winterization: Winterization of property units with dry/wet/radiant heat,

winterization of pools/spas/hot tubs, and amounts paid to repair/replace/install a reduced pressure zone (RPZ) valve.

(3) Utilities such as electricity, gas, oil, propane, water, and sewer.

(4) Equipment repair or replacement such as sump pump repair and/or installation, services for pumping water from basement, water well repair or replacement, and septic system maintenance.

(5) Securing and re-securing the property, temporary roof repairs, securing

in-ground or above ground pools, securing hot tubs or spas, and maintenance of pools, spas, and hot tubs.

(6) Boarding the Property: Boarding the property with 1/2", 5/8”, or 3/4" plywood or polycarbonate/clearboard.

(7) Hazard Abatement: Hazard abatement such as advances to take necessary actions in compliance with state and federal regulations with regards to environmental hazards (such as asbestos and radon).

(8) Debris Removal: Debris removal such as removal of cubic yards of debris from the property, and removal of vehicles from the property in compliance with state and local requirements.

(d) Advances for Association Fees. As required by state law, amounts advanced by the servicer to pay homeowner’s association (HOA), Planned Unit Development, and/or condo association fees.

(e) Less any Credits. Any credits on the borrower’s account not already applied to the

unpaid principal balance reduce the borrower’s TEI. VALERI calculates credits based upon information you report with the Basic Claim event. Credits include:

(1) Refunds of insurance premiums.

(2) Tenant rents.

(3) Insurance loss proceeds.

(4) Escrow credit balance.

(5) Suspended credits (partial payments held in suspense).

(6) Buy-down credits from origination (seller buy downs).

(7) Interest on escrow.

(8) Other credits for application to liquidation expenses.

(9) Other credits for application to advances.

(10) Tax refunds.

d. Sample Calculation of TEI. VALERI calculates TEI at the time of the claim using the UPB, accrued unpaid interest, paid liquidation expenses, and advances, less any credits. For example, a loan is terminated through foreclosure with:

1. UPB: $80,000

2. Accrued unpaid interest on UPB and advances: $8,000

3. Paid liquidation expenses: $4,000

4. Advances: $2,000

5. Credits: $900

6. TEI: ($80,000 + $8,000 + $4,000 + 2,000 - $900): $93,100

e. Under 38 U.S.C. 3712, VA is obligated to pay the servicer a claim up to maximum guaranty on any terminated loan and final accounting of the loan. The guaranty protects the servicer against loss if the Veteran or a subsequent borrower fails to repay the loan. VA will guarantee 25 percent of the principal loan amount, up to the maximum guaranty. Guaranty amounts vary with the size of the loan and the location of the property.

14.04 ALLOWABLE CLAIM ITEMS FOR VA REIMBURMSENT

a. The VALERI Fee Cost Schedule and the VALERI Fee Cost Schedule Frequency located on the VALERI website at <http://www.benefits.va.gov/HOMELOANS/servicers_valeri.asp>, identifies each line item per state and provides maximum allowable limits that a servicer may seek reimbursement from VA once a loan has terminated. Appendix H, Property Preservation Requirements and Fees, provides guidance to servicers regarding VA’s minimum requirements to protect and preserve a delinquent property.

b. VA does not reimburse for day-to-day expenses or advances associated with the cost of doing business. This includes, but is not limited, to broker’s price opinion (BPO), trip charges, regular mail, courier fees, photos, and photo copies.

c. The information below provides descriptions of basic reimbursable claim items.

1. Advances. An amount the servicer pays on behalf of the borrower for the

maintenance or repair of the security, payment of accrued taxes, special assessments, ground or water rents, and premiums on casualty insurance against loss or damage to the property.

(a) Insurance(s). Insurance which protects the homeowner and/or servicer from

property losses during a fixed period of time. VA requires servicers to ensure that insurance policies are maintained in an amount sufficient to protect the security against risks or hazards and to the extent customary in the locality. Force placed insurance must be put in place by the servicer when the homeowner’s insurance lapses or is cancelled. Insurance advances are allowable through the established interest cutoff date on terminated loans. The maximum allowable amount is based on a yearly and/or monthly premium.

(b) Taxes. Taxes levied on the property by a governing authority where the property

is located. Billing frequency varies by state and the VA maximum allowable amount applies to each line item claimed. If the property is acquired by VA, taxes are allowable up to 30 days after conveyance or the confirmation/ratification of sale date when required under local law. If the property is not acquired by VA, taxes are allowable through the established interest cutoff date or the termination date, whichever is earlier.

(c) Special Assessment. Tax that can be imposed by a municipality for expenses such

as installation of water or sewer lines, street paving, or street lighting. If the property was acquired by VA and unpaid fees resulted in a lien, special assessments will be allowable up to 30 days after loan termination or the confirmation/ratification of sale date when required under local law. If the property is not acquired, special assessments are allowable through the established interest cutoff date or the termination date, whichever is earlier.

(d) Ground Rent. Fee that is paid for the use of land when title to a property is held as

a leasehold estate, rather than as fee simple. If the property was acquired by VA and fees resulted in a lien, fees will be allowable up to 30 days after loan termination or the confirmation/ratification of sale date when required under local law. If the property is not acquired, fee is allowable through the established interest cutoff date or the termination date, whichever is earlier.

(e) Association Fees. A fee collected from each homeowner of a multi-unit building

or community to fund common area repairs/improvements, ground maintenance, and security. If the property was acquired by VA and fees resulted in a lien, fees will be allowable without limitation of the interest cutoff date to clear title. If the property is not acquired, fees are allowable through the established interest cutoff date or the termination date, whichever is earlier. Unless required by local authority, VA does not reimburse for late charges, interest, or attorney's fees.

2. Property Preservation. Maintenance completed to preserve, protect and secure a

vacant/abandoned property. These fees are allowable through the established interest cutoff date. The following are reimbursable on the claim under guaranty:

(a) Utilities. Utility advances are allowable from the first uncured default through

the interest cutoff date on properties not conveyed to VA. Utility advances on conveyed properties are reimbursable up to 30 days from conveyance. VA will not reimburse late fees/charges.

(b) Securing.

(1) Securing of the Property. Fees to secure a property are allowable from the first

uncured default to the interest cutoff date. If multiple securing advances are claimed, VA will pay up to the aggregate amount. Lockboxes are part of securing and will be included in the aggregate amount.

(2) Resecuring of the Property. Fees to resecure a property after initial securing. The system will automatically deny this expense on the initial claim. Servicers may file an appeal or supplemental claim, with justification and supporting documentation.

(3) Boarding. Fees to board a property are allowable from the first uncured default to

the interest cutoff date. If multiple boarding advances are claimed, VA will pay up to the aggregate amount for each plywood or polycarbonate/clearboard size if the completion dates are the same. If multiple boarding advances are claimed and completion dates are different, VA should only be paying the first boarding advance.

(4) Hazard Abatement. An expense that can be imposed by a municipality for the

removal of hazards related to unsafe conditions in connection with a vacant property. These fees are allowable from the first uncured default to the interest cutoff date or the termination date, whichever is earlier.

(5) Debris Removal. Removal of unhealthy or hazardous materials from the exterior

and interior of properties prior to transferring custody of vacant properties. Reimbursement of this expense is based on cubic yards and must be itemized. These fees are allowable from the first uncured default to the interest cutoff date or the termination date, whichever is earlier.

3. Expenses. Fees incurred by the servicer to complete the termination of a mortgage loan.

(a) Foreclosure or DIL Attorney Fees. Fees incurred due to the termination of a

mortgage loan through foreclosure or DIL of foreclosure. These are paid as an aggregate not to exceed the maximum allowable in VA regulation. Only foreclosure attorney fees are reimbursed on the initial claim when a loan has been reviewed for a DIL, but the end result is foreclosure; DIL attorney fees are not reimbursable. However, when a foreclosure has commenced on a loan that terminates through a DIL, the foreclosure and DIL attorney fees can be combined, to be reimbursed up to maximum allowable for each.

(b) Foreclosure Restart Attorney Fee. Fees incurred if local law requires the

foreclosure process to be restarted when the foreclosure action is canceled or postponed. A restart may be the result of a bankruptcy filing, VA requested delay, property damage/hazardous conditions, or attorney errors. The system will automatically deny this expense on the initial claim. Servicers may file an appeal or supplemental claim, with justification and supporting documentation, to validate circumstances that were beyond the control of the servicer or their attorney.

(c) Bankruptcy Attorney Fees (Chapter 7, 11, and 13 filings). Bankruptcy attorney fees are only allowable if a motion for relief was filed. Multiple bankruptcy attorney line items are allowable, up to the maximum aggregate amount. VA limits the amount reimbursable for multiple bankruptcy filings.

(d) VA Appraisals. An appraisal completed by a VA fee appraiser for liquidating

purposes. The system will allow one appraisal. Servicers may file an appeal or a supplemental with justification and supporting documentation for additional appraisal expenses. This fee is allowed to be reimbursed over maximum guaranty.

(e) Appraisal Service Tax. An expense that can be imposed by a municipality.

(f) Court Appraisal. An expense required by a judicial foreclosure state and is not

paid above maximum guaranty.

(g) Mileage. Fee paid to a VA fee appraiser to travel to the property;

(h) Appraisal Update. An updated appraisal report completed by a VA fee appraiser

for liquidating purposes. The system will automatically deny this expense and servicers may file an appeal or supplemental claim, with justification and supporting documentation, for additional appraisal expenses.

(i) Initial Termination Title Review. An expense incurred for a search of records

performed by a title company or attorney prior to termination of a loan. VA will only reimburse one initial title fee on a terminated loan. The search may consist of:

(1) Identifying all liable parties with an interest in the property;

(2) Reviewing past deeds, wills, and trust to make sure the title has passed correctly to

each owner; and

(3) Confirming there are no outstanding prior mortgages, judgments, liens, overdue

special assessments, or outstanding restrictive covenants.

(j) Title Updates that Occur Prior to Termination. An expense completed to update

the initial title search information to ensure that no changes have occurred. VA will only reimburse one title update on a terminated loan, requiring all additional updates to be appealed with supporting documentation and justification.

(k) Initial Termination Title Commitment/Guaranty. A written commitment from a

title company stating the conditions which they will insure title to the property. VA will only reimburse one initial termination title commitment/guaranty fee on a terminated loan.

(l) Final Termination Title Documentation. An expense incurred by the servicer to

pay required endorsement fees to ensure marketability of the property. If the property is acquired by VA, one final termination fee is allowable.

(m) Filing Fees. Expenses charged by public officials for the filing of documents

associated with the loan.

(n) Recording Fees for Foreclosure or DIL. Expenses charged by public officials for

the recording of documents associated with the loan. The Deed to VA, Assignment of Sheriff’s/Trustee’s Deed, and Assignment of Sheriff’s/Trustee’s Certificate of Sale are not allowable unless the property is acquired by VA.

(o) Foreclosure Facilitation Fees. Expenses charged by public officials to facilitate

the foreclosure action as required by state law.

(p) Relocation Assistance/Borrower Incentive. An incentive paid by the servicer to a

Veteran occupant, not to exceed $1,500, subsequent to the completion of a compromise sale or execution of a DIL of foreclosure and is reimbursable to the servicer.

(q) Investigation Fee Related to Service. Expense incurred for investigation services.

The system will automatically deny this expense on the initial claim. Servicers may file an appeal or a supplemental with justification and supporting documentation to validate this expense. Skip trace is not considered an investigation fee and will not be payable.

(r) Non-Extinguishable Liens. Expense incurred by the servicer to pay for any liens

that are not released by the foreclosure action in order to obtain clear title.

(s) Committee Fees and Costs. Fees and costs incurred by the servicer to convene the

committee to confirm the sale where there is an equity and/or Internal Revenue Service lien against the property.

(t) Transfer Tax/Documentary Stamps. Expense imposed by a public official for the

transfer of title from one person (or entity) to another.

(u) Municipal Lien Certificate. Legal document that lists all taxes, assessments, and

water charges owed on a property. This document is requested to make sure all charges are paid current prior to foreclosure.

(v) Title V Septic (Massachusetts). Massachusetts State Law requiring all individual sewage systems to be inspected prior to the transfer of the property to another entity. A licensed inspector approved by the Board of Health must conduct the inspection. Fees associated with this process are payable only if the servicer transfers custody to VA. This fee is allowed to be reimbursed over maximum guaranty.

(w) Poundage. An expense imposed by a public official to handle funds received for a

third party sale in the state of Oklahoma only.

(x) Mennonite Notices. An expense imposed by the court to notify every party

holding a legally-protected property interest whose name and address can reasonably be determined by diligent efforts (ex. Mennonite board of Missions v. Adams).

(y) Property Inspections. An inspection of a property to determine its condition. VA will reimburse up to two inspections per month. Property inspections are paid based on the completed date reported by the servicer on the claim event and is allowable up to the interest cutoff date or termination date, whichever is earlier.

(z) Service (to Serve Homeowners). The procedure of delivering court documents to

the borrower giving legal notice and enabling that person to respond to the proceeding before the court. Each jurisdiction has specific rules regarding the means of delivery for notification to the homeowner. The type of fee that is claimable:

(1) Personal service such as a sheriff or private entity personally delivers the documents;

(2) Service by publication such as the attorney publishes the notice in a local newspaper or such; and

(3) Service by certified mail such as the attorney would require proof of delivery by the mailing service.

(aa) Posting Notice of Sale. A filing fee imposed by the court in order for an attorney

to proceed with serving the homeowners for foreclosure.

(bb) Estoppel Affidavit. A document that is executed by the borrower, for a DIL, attesting to deed the property of their own free will.

(cc) Mediation Fee. An attorney fee cost associated with the foreclosure which is

required by the local jurisdiction. The system will automatically deny this expense on the initial claim. Servicers may file an appeal or a supplemental with justification and supporting documentation to validate this expense.

(dd) Vacant Property Registration. A fee incurred for a vacant property prior to

foreclosure in certain municipalities due to state laws. The system will automatically deny this expense on the initial claim. Servicers may file an appeal or supplemental claim, with justification and supporting documentation.

4. Servicers are also eligible for an incentive payment upon the successful completion of an alternative to foreclosure option which meets VA regulatory requirements. This fee is paid over maximum guaranty. The following items are payable above the maximum guaranty:

(1) VA liquidation appraisal fees.

(2) Title V septic fees in the State of Massachusetts only if VA acquired the property.

(3) Incentive payment for a DIL of foreclosure or compromise sale.

5. Maximum guaranty is calculated differently on original versus modified loans:

(1) Original Loans. For original loans that have not been modified, VALERI calculates maximum guaranty as the lesser of the original guaranty amount or the original guaranty percentage applied to total indebtedness at the time of liquidation.

(a) Example. If VA originally issued a $36,000, 40 percent guaranty on a $90,000 loan and the total indebtedness is $95,000, the guaranty is capped at the original guaranty amount of $36,000. This is because the original guaranty amount of $36,000 is less than the original guaranty percentage applied to the total indebtedness (40% x $95,000 = $38,000). If total indebtedness on the same $90,000 loan is $80,000, the amount of guaranty would be 40 percent of the total indebtedness or $32,000 (40% x $80,000) because this is less than the original guaranty amount.

(2) Modified loans. For loans that have been modified, VALERI calculates the maximum claim payable as the lesser of the modified loan’s guaranty amount or the modified loan’s guaranty percentage applied to the total indebtedness at the time of liquidation.

(a). VALERI calculates the adjusted guaranty amount and guaranty percentage for the modified loan based upon the following scenarios:

1. If the loan was modified before February 1, 2008, and the modified loan amount is

greater than the original loan amount, the dollar amount of guaranty will be equal to the dollar amount of guaranty on the original loan. In this case, the original dollar amount of guaranty remains the same and the guaranty percentage is reduced.

2. If the loan was modified before February 1, 2008, and the modified loan amount is

less than or equal to the original loan amount, VALERI determines the guaranty percent

to be equal to the original percent of guaranty. In this case, the guaranty percentage

remains the same and the original dollar amount of guaranty is reduced.

3. If the loan was modified on or after February 1, 2008, the dollar amount of the

guaranty may not exceed the greater of the original guaranty amount of the loan being

modified or 25 percent of the loan being modified subject to the statutory maximum

specified in 38 U.S.C. 3703(a)(1)B.

6. When the modified loan amount is greater than the original loan amount, the

original dollar amount of guaranty remains the same if greater than 25 percent of the

modified loan amount and the guaranty percentage is reduced.

7. When the modified loan amount is less than or equal to the original loan amount,

the guaranty percentage remains the same if greater than 25 percent and the original

dollar amount of guaranty is reduced. The guaranty will never drop below 25 percent on

loans modified on or after February 1, 2008.

14.05 VA DETERMINES CREDIT TO INDEBTEDNESS

a. VA subtracts the credit to indebtedness from the TEI to determine the gross claim payment. Unless the property is located in a state or locality with statutory bid requirements, the credit to indebtedness is always the greater of net value, amount bid at sale, or actual proceeds of the sale. For total debt bids, where the servicer transfers custody of the property to VA, the credit to the indebtedness is the unpaid principal balance. VALERI calculates the credit to the indebtedness based on the bid type, outcome of the sale, and if the property is located in a state or locality with statutory bid requirements.

b. Credit to Indebtedness for Foreclosure Sales in States *Without* Statutory Bid

Requirements.

1. Net value bid type where the holder retains or transfers custody of the property. Credit to indebtedness is the net value.

2. Net value bid type where a third party is the successful bidder. Credit to

indebtedness is the greater of net value or actual third party bid amount.

3. Net value overbid where the holder retains or transfers custody of the property. Credit to indebtedness is the actual overbid amount.

4. Net value underbid where the holder retains or transfers custody of the property.

Credit to indebtedness is the net value.

5. Total debt bid where the holder transfers custody of the property. Credit to

indebtedness is the UPB.

6. Total debt overbid where holder transfers custody of the property. Credit to

indebtedness is the UPB.

7. Total debt underbid where holder transfers custody of the property. Credit to

indebtedness is the UPB.

c. Credit to Indebtedness for Foreclosure Sales in States *With* Statutory Bid

Requirements.

1. Statutory net value overbid where the holder retains the property. Credit to

indebtedness is the actual bid amount.

2. Statutory net value overbid where the holder transfers custody of the property. Credit to indebtedness is the net value.

3. Statutory net value overbid where a third party is the successful bidder. Credit to

indebtedness is the actual third-party amount.

d. A list of states and localities with statutory bid requirements is located in Appendix G, State Foreclosure Process and Statutory Bid Information.

e. For a DIL of foreclosure, if the net value is less than the borrower’s TEI, VA credits net value. If the net value is more than the borrower’s TEI and the servicer transfers custody of the property, VA credits the UPB.

f. For a compromise sale, VA credits net value or the actual proceeds of the sale, whichever is greater. VA credits actual proceeds of sale on loans where the servicer submitted a pre-approval request and received approval to accept less than net value.

14.06 VA CALCULATES CLAIM PAYMENT

a. Once VALERI determines TEI, maximum guaranty, and the credit to the indebtedness, the claim payment for loans terminated through foreclosure, DIL of foreclosure, and compromise sale is calculated as follows:

1. Determine Gross Claim Amount. The gross claim amount equals the TEI, minus the credit to the indebtedness. The following describes how VALERI calculates TEI and credit to the indebtedness.

(a) Example. A servicer holds a foreclosure sale on a property with a net value of $88,130 and total eligible indebtedness of $95,000. According to VA guidelines, the servicer must bid the lower of net value or TEI. In this example, the servicer bids the correct net value of $88,130 and is the successful bidder. They retain the property and file a claim for the remainder of the indebtedness. The gross claim amount would be the TEI, minus the credit to indebtedness ($95,000 - $88,130 = $6,870).

2. Compare Gross Claim Amount to Guaranty Amount. If the guaranty amount is greater than or equal to the gross claim amount, the amount payable is the gross claim amount. If the guaranty amount is less than the gross claim amount, the amount payable is the maximum guaranty amount, plus any VA liquidation appraisal fees, Title V septic fees in the State of Massachusetts on VA-acquired properties, and any incentive payment for a DIL of foreclosure or compromise sale.

3. Determine Total Amount Payable at Claim. The total amount payable at claim may differ from the amount calculated in Step 2 if the loan termination type was a compromise sale or DIL. In these cases, the total amount paid at claim is the claim amount payable, plus any incentive amount payable. Incentives are paid only when the case is eligible for an incentive payment.

* 1. OTHER REVIEW CONSIDERATIONS ON CLAIM PAYMENT

a. RIs. Prior to claim payment, all RIs will be reviewed to determine if VA’s liability has been increased and if a monetary adjustment is warranted to reduce the claim payment. If the gross claim is in excess of the calculated maximum guaranty after adjustments have been made, the claim payable will remain at maximum guaranty. If the gross claim is less than the calculated maximum guaranty after adjustments have been made, the gross claim will be payable at the reduced amount. VA only penalizes the servicer for the amount that should not have been included in the claim if they had complied with the regulation.

b. Bankruptcy. When a portion of the debt owed on a loan has been legally

discharged by a bankruptcy court (cram-down), the amount discharged by the court shall be treated as a prepayment to principal as of the date of the discharge. VA will allow and pay the bankruptcy attorney fees and filing fees only when the servicer reports a Bankruptcy Update Event in VALERI with Relief of Stay Filed or Stay Lifted information.

c. Joint Loans. A loan made between a Veteran and non-Veteran is considered a

joint loan. VA will credit the net value to the TEI (only including the Veteran’s share of the eligible liquidation expenses). VA’s liability will be equal to the Veteran’s share of the balance remaining, not to exceed the original maximum amount of guaranty, plus the cost of the liquidation appraisal, Title V septic fees in the State of Massachusetts on VA-acquired properties, and any incentive paid for a compromise sale or DIL of foreclosure.

d. Open Issues. All open issues must be resolved and adjustments made prior to

claim payment. This includes, but is not limited to, cases with potential fire loss, extenuating property conditions, or where VA requested a postponement of foreclosure.

14.08 CREDITS TO CLAIM

a. All credits applicable to the indebtedness are listed separately on the claim to show the description for each credit. Most credits, such as insurance premium refunds, any rents collected by the holder, and any funds the servicer applied to the account to reduce the indebtedness, must be credited prior to loan termination or the servicer’s submission of the Basis Claim Event.

b. The following are examples of credits to claim:

1. Escrow Balance - The last positive escrow balance and/or any funds applied to the

tax and insurance account will be credited unless the holder has also claimed advances for the payment of taxes and/or insurance premiums. If this is the case, advances will be reduced by applying the balance in the tax and insurance account to the earliest advances.

2. Origination Buy-down - The amount of any unspent funds escrowed with a third

party for application to the loan, such as funds contributed by the seller to pay part of the interest due on the loan according to a fixed schedule. These funds will be applied as a credit to reduce the indebtedness on the loan.

3. Unapplied Funds - Any payments held in suspense because they are less than the

amount of a full-monthly installment will be applied as a credit to reduce the indebtedness on the loan.

4. Insurance Loss Proceeds - Any hazard insurance proceeds received by the servicer

during the life of the loan must be credited to the indebtedness upon receipt, unless the proceeds were used to restore the property. If the proceeds are received during the delinquency or after termination of the loan, the funds should be listed as loss proceeds credit on the Basic Claim Event. Proceeds of an insurance loss arising from a total or near total destruction of the property, should normally be sufficient to cover the mortgage debt. A terminated loan with a net claim under the guaranty indicates that either the property was not adequately insured or if the coverage was adequate, that the insured loss was settled for less than the insurer's full liability. If it is established that any insurable damage to the security was inadequately insured or that any damage settlement was inequitable, Regional Loan Centers (RLCs) will submit the claim to VA Central Office for review.

### 14.09 SERVICER RECEIVES CLAIM PAYMENT

a. VA will review and make a determination on a claim payment. Payment information can be located on the Payment History link on the SWP. For information on how VA calculated the claim payment, including any information on items that were allowed or disallowed, servicers may view the Claim Payment Status Report in VALERI. Servicers may contact the VA-assigned technician to research a claim payment if the funds are not received within 14 days after the Financial Management System (FMS) issued a payment transaction number.

b. On initial claims, the servicer has 30 days from the claim decision or rejection to exercise the option to appeal. For more information on appeals, refer to Chapter 16.

14.10 SUPPLEMENTAL CLAIMS

a. A servicer may submit a Supplemental Claim Event with fully-supported documentation for VA to review any additional credits, advances, or expenses that were NOT submitted on the original Basic Claim Event. All previously submitted claims (original, appeal or supplemental) must be certified before the servicer can submit any additional supplemental(s) for consideration. Items not supported with adequate documentation will be denied.

## 14.11 CLAIM PROCESS FOR MOBILE HOMES (38 CFR 36.4824)

a. Servicers must file all claims for manufactured (mobile) homes not affixed to a permanent foundation by submitting required documentation to the St. Paul RLC. Mobile home claims differ from terminated or refund claims because they require Manual claim calculation.

b. Servicers are required to submit one of the following forms along with supporting documentation after the sale or other liquidation of the security for the loan:

1. [VA Form 26-8629](http://vbaw.vba.va.gov/bl/20/cio/20s5/forms/VBA-26-8629-ARE.pdf), *Manufactured Home Loan Claim Under Loan Guaranty*

*(Manufactured Home Unit Only),* OR

2. [VA Form 26-8630](http://vbaw.vba.va.gov/bl/20/cio/20s5/forms/VBA-26-8630-ARE.pdf), *Manufactured Home Loan Claim Under Loan Guaranty-*

*(Manufactured Home Unit and Lot or Lot Only)*.

c. Servicers do not upload any documentation in the SWP.

d. The payment information will not be displayed on the Claim Payment Status Report or on the Payment History link in VALERI because the mobile home loan does not exist in VALERI.

e. Once the claim payment information is properly entered into FMS, the servicer should receive their claim payment within 14 days.

14.12 FUNDS RECEIVED BY VA AFTER CLAIM PAYMENT

a. VA may receive funds from a servicer after receipt of the claim payment. If it is determined that these funds are due to VA for the reduction of the Veteran’s debt, funds will be retained. If the credit would not reduce the net claim payable, the funds will be returned to the servicer. The Eligibility Center must be able to identify all subsequent credits to the loss associated with a Veteran’s use of entitlement in order to issue future Certificates of Eligibility, and the Debt Management Center must also accurately track each credit to a Veteran’s debt, where appropriate.

b. Upon receipt of funds, the RLC should annotate WebLGY’s liquidation screen to account for the credit. In VALERI, the VA-assigned technician should document the case notes and create an “issue” to identify and consider the recovered amounts in any future claim reconsideration request. The RLC will submit the funds to the Administrative Loan Accounting Center for processing.