

CHAPTER 14. CLAIMS

CONTENTS

PARAGRAPH	PAGE
14.01 Claims (38 C.F.R. §36.4324).....	14-2
14.02 Eligibility for Claim Payment.....	14-2
14.03 Claim Payment Calculation.....	14-3
14.04 Allowable Claim Items for VA Reimbursement.....	14-6
14.05 Maximum Guaranty.....	14-14
14.06 VA Determines Credit to Indebtedness.....	14-15
14.07 Other Review Considerations on Claim Payment.....	14-17
14.08 Servicer Receives Claim Payment.....	14-17
14.09 Supplemental Claims.....	14-18
14.10 Claim Process for Mobile Homes (38 C.F.R. §36.4824).....	14-18
14.11 Funds Received By After Claim Payment.....	14-19

#### 14.01 CLAIMS (38 C.F.R. §36.4324)

a. Servicers must submit claims to the Department of Veterans Affairs (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 manual for more information.

b. Claims may be submitted on the following situations:

1. Foreclosure.

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

3. Compromise sale.

4. Terminated mobile home. Mobile homes are paid outside the VALERI application. For more information, review section 14.10 of this chapter.

5. Refund (VA Purchase). On refunded loans, the servicers must submit the 'VA Purchase Claim' claim within 60 days of VA's approval date. Refer to Chapter 9 of this manual for more information.

#### 14.02 ELIGIBILITY FOR CLAIM PAYMENT

a. Claims must be submitted by the servicer to VA electronically through the Servicer Web Portal (SWP). The VA Loan Electronic Reporting Interface (VALERI) initiates a routine Certify Claim Payment process if all regulatory infractions (RI) have been addressed, and there are no failed business rules associated with the claim event. If the loan has outstanding RIs, identified failed business rules, or specific alerts on the loan VALERI will initiate a Review Non-Routine Claim process for further review by the VA-assigned technician.

b. Further review is required for the following situations:

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

2. The Insurance loss proceeds are included in the Basic Claim Event.

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

4. The pending RIs on the loan.

5. The claim is a VA Purchase 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 the State Foreclosure Process and Statutory Bid Information document located on the VALERI internet at [https://www.benefits.va.gov/homeloans/servicers\\_valeri.asp](https://www.benefits.va.gov/homeloans/servicers_valeri.asp).

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

(c) Short 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 short 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.

1. 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 ( $\$95,000 - \$88,130 = \$6,870$ ).

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 short sale (Closing Disclosure settlement date), or date the DIL is recorded or submitted for recording (depending on which is reported in the DIL 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 up to 180 days to the maximum interest timeframe when the bankruptcy filed event is reported during the default). Maximum allowable state foreclosure timeframes are published annually 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 or interest paid through date, whichever is earlier. 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 until the first negative advance.

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](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.

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](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 the exception of lienable items when the property is conveyed.

7. 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 reported with the Basic Claim event.

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. 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, and Title V septic fees in the State of Massachusetts on VA-acquired properties. For information on maximum guaranty and the impact on a claim payment, review section 14.05 of this chapter.

#### 14.04 ALLOWABLE CLAIM ITEMS FOR VA REIMBURSEMENT

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](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 G, 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) Advances for Insurance. 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. 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. 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. If the property is not acquired by VA, taxes are allowable through the established interest cutoff date, or the termination date, whichever is earlier. Advances for taxes paid after the loan termination date are not allowable if VA did not acquire the property. 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.

(c) Advances for 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 reimburseable on the claim under guaranty:

- (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. Utility advances are allowable from the first uncured default through the interest cutoff date. VA will not reimburse late fees/charges.
- (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. 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. Additional securing fees include:
  - (i) Temporary roof repairs.
  - (ii) Pools, spas, and hot tub securing.
- (6) Re-Securing. 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.
- (7) Boarding the Property: Boarding the property with 1/2", 5/8", or 3/4" plywood or polycarbonate/clearboard. 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 will only pay the first boarding advance.
- (8) 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. 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), are allowable from the first uncured default to the interest cutoff date or the termination date, whichever is earlier.
- (9) 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.

(d) Advances for 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. Expenses. Fees incurred by the servicer to complete the termination of a mortgage loan.

(a) Attorney Fees. Allowable attorney fees are determined based on the termination date of the loan. These are paid as an aggregate not to exceed the maximum allowable in VA regulation §36.4314 (b)(i)(ii)(iii). Fees must be reported separately at the time of the claim and include:

(1) Foreclosure Attorney Fees. Fees incurred due to the termination of a mortgage through foreclosure.

(2) Foreclosure Restart Fees. Fees incurred if local law requires the foreclosure process to be restarted when the foreclosure action is cancelled 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.

(3) DIL Attorney Fees. 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.

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

(5) Ad Litem/Curator Fees/Warning Order Attorney Fees.

(6) Attorney Service Taxes.

(7) 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. 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. 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. An expense required by a judicial foreclosure state and is not paid above maximum guaranty.

(4) Appraisal Service Taxes. An expense that can be imposed by a municipality.

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

(6) 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.

(7) **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. 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:

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

(ii) Reviewing past deeds, wills, and trust to make sure the title has passed correctly to each owner; and

(iii) Confirming there are no outstanding prior mortgages, judgments, liens, overdue special assessments, or outstanding restrictive covenants.

(2) 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.

(3) 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.

(4) 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.

(5) Title Service Taxes.

(d) Filing Fees. Expenses charged by public officials for the filing of documents associated with the loan. 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. 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. A filing fee imposed by the court in order for an attorney to proceed with serving the homeowners for foreclosure.

(11) Notice affidavit.

(12) Notice of publication affidavit.

(13) Order confirming sale.

(e) 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.

(f) 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. A document that is executed by the borrower, for a DIL, attesting to deed the property of their own free will.
- (3) Deed to VA.
- (4) Deed of re-conveyance/full release/satisfaction of mortgage.

(g) Foreclosure Facilitation Fees. Expenses charged by public officials to facilitate the foreclosure action as required by state law. 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.

(h) 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. Personal service of papers on any necessary party of interest, where a sheriff or private entity personally delivers the documents.

(3) Statutory required mail.

(4) Service by publication. Service of papers by publication such as the attorney publishes the notice in a local newspaper or such.

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

(6) Investigation fees 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.

(7) Non-extinguishable liens. Expense incurred by the servicer to pay for any liens, typically incurred by a government entity, that are not released by the foreclosure action in order to obtain clear title. Leins that are not the result of foreclosure action, such as Uniform Commerical Code (UCC) liens, are not allowed.

(8) 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.

(9) Transfer tax/documentary stamps. Expense imposed by a public official for the transfer of title from one person (or entity) to another. If the property is acquired by VA, the Transfer tax/documentary stamps are allowed.

(10) 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.

(11) Title V septic (Massachusetts) fees and costs. 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.

(12) Poundage. An expense imposed by a public official to handle funds received for a third party sale in the state of Oklahoma only.

(13) 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).

(14) 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.

(i) VA will treat this as a reimbursable expense that may be included as a part of the eligible indebtedness on the basic claim event in VALERI; it will not be considered as proceeds to the owner from a short sale of the property, which is prohibited.

(15) 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.

(16) State Pre-Foreclosure Fee. A state required fee allowed once during the life of the loan. The system will automatically allow this expense on the initial claim if the loan has been referred to foreclosure.

3. Credits. 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. For information on credits received after the Basic Claim event has been submitted, review 14.11 of this chapter.

(a) The following are examples of credits to claim:

(1) Escrow Credit 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) Unapplied Origination Buydown Credits. 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) **Suspended Credits.** 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) **Refund of Insurance Premiums.** Any refunded amounts for paid insurance advances.

(5) **Tenant Rents.**

(6) **Interest on Escrow.** Any interest that has accrued on funds in the escrow account.

(7) **Other Credits for Application to Liquidation Expenses.** Any refunded amounts for expenses included on the claim for reimbursement or for expenses paid by the borrower.

(8) **Other Credits for Application to Advances.** Any refunded amounts for property preservation advances included on the claim for reimbursement or for expenses paid by the borrower.

(9) **Tax Refunds.** Any refunded amounts for paid tax advances.

(10) **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 Loan Administration staff will submit the claim to VA Central Office for review.

4. Servicers may submit an appeal when they disagree with a VA payment. For information on Appeals, refer to Chapter 16 of this manual.

#### 14.05 MAXIMUM GUARANTY

a. 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.

b. 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 ( $40\% \times \$95,000 = \$38,000$ ). 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 ( $40\% \times \$80,000$ ) 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.

4. 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.

5. 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.

#### 14.06 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 the State Foreclosure Process and Statutory Bid Information document on the VALERI internet at [http://www.benefits.va.gov/HOMELOANS/servicers\\_valeri.asp](http://www.benefits.va.gov/HOMELOANS/servicers_valeri.asp).

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 short sale, VA credits the 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.

#### 14.07 MAXIMUM GUARANTY

a. Regulatory Infractions (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.

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.

d. Open Alerts. All open alerts 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 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 Detail Results 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.

#### 14.09 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.

b. All decisions on a Supplemental Claim are final. Servicers do not have the ability to appeal the determination.

#### 14.10 CLAIM PROCESS FOR MOBILE HOMES (38 C.F.R. §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 at [vbarlvaleri@vbaspl@va.gov](mailto:vbarlvaleri@vbaspl@va.gov). Mobile home claims differ from terminated or refund claims because they require manual claim calculation. The holder of a guaranteed mobile home loan is required to notify VA of the default within 15 days after two full installments have been missed via VA Form 26-6850, Notice of Default. The Notice of Default should be remitted to the St. Paul RLC for processing. Upon notification of the default, loan servicing will be overseen by the St. Paul RLC.

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](#), *Manufactured Home Loan Claim Under Loan Guaranty (Manufactured Home Unit Only)*, OR

2. [VA Form 26-8630](#), *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.

#### 14.11 FUNDS RECEIVED BY VA AFTER CLAIM PAYMENT

a. If the servicer receives funds/credits for items previously reimbursed on the claim, the servicer must file a Supplemental Claim to report those funds to VA. If it is determined that these funds are due to VA for the reduction of the Veteran's debt, funds will be collected. If the credit would not reduce the net claim payable, there will be no change to the Basic Claim payment. Loan Production 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 Loan Administration staff 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 Loan Administration staff will submit the funds to the Administrative Loan Accounting Center for processing. If the loan termination date is outside 365 days, the servicer should reach out to the assigned VA technician or the office of property jurisdiction, if the case is unassigned in VALERI.