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### CHAPTER 1. LOAN GUARANTY OVERVIEW AND SERVICING OBJECTIVES

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1.01 OBJECTIVES OF THIS HANDBOOK

a. The purpose of this Handbook is to provide operational policies and procedures for servicers who participate in the Department of Veterans Affairs (VA) Home Loan program and service VA-guaranteed loans through the VA Loan Electronic Reporting Interface (VALERI) system. It also discusses roles and responsibilities for VA Loan Administration (LA) staff and servicers.

b. This Handbook is written as a tool for all servicers participating in the VA Home Loan program and does not change or supersede any regulation or law affecting the program. If there appears to be a discrepancy, please refer to the related regulation or law.

c. This Handbook has two primary objectives:

1. Provide servicers the tools needed to manage the program.

2. Describe LA regulations, policies, and procedures.

1.02 OVERVIEW OF THE VA HOME LOAN PROGRAM

a. Private lenders, such as banks, savings and loans or mortgage companies, provide financing for VA-guaranteed loans to eligible Veterans for the purchase of a home for personal occupancy as outlined in 38 CFR Part 36, Loan Guaranty. To obtain a loan, a Veteran must apply to a lender. If the loan is approved, VA may then guarantee a portion of the loan. This guaranty protects the lender against loss up to the amount guaranteed and allows a Veteran to obtain favorable financing terms.

b. Although there is no maximum loan amount set by VA, lenders will generally loan up to four times the Veteran’s available entitlement without requiring a down payment. This is due to secondary mortgage market considerations, which typically require a 25 percent backing. In most cases, VA only limits the loan amount to the value of the property and the Veteran’s ability to repay.

c. Benefits of the Program. The VA Home Loan program is a Federal benefit program. Specific benefits to the Veteran borrower include:

1. Equal opportunity for all qualified Veterans to obtain a home loan.

2. No down payment, unless required by the lender or the purchase price is more than the reasonable value of the property.

3. Veterans informed of reasonable value of property being purchased.

4. Negotiable interest rate.

5. Ability to finance the VA funding fee.
6. Reduced funding fees with a down payment of at least five percent.

7. Exemption from the funding fee requirement for Veterans eligible for VA compensation.

8. Closing costs are comparable with other financing types and may be lower.

9. No mortgage insurance premiums.

10. Mortgage fully assumable.

11. Right to prepay without penalty.

12. Assistance to Veteran borrowers in default due to temporary financial difficulty.

d. Components of the VA Regional Loan Center (RLC). The Veterans Benefits Administration (VBA) administers the VA Home Loan program through eight RLCs and one Regional Office with loan activities. Each RLC has three components: Construction and Valuation (C&V), Loan Production (LP), and LA.

1. C&V. This section oversees the valuation of properties for Loan Guaranty purposes and supervises the construction of Specially Adapted Housing (SAH) for Veterans with disabilities. Specifically C&V:

   (a) Handles all matters related to fee appraisers and compliance inspectors.

   (b) Issues Notices of Value (NOV).

   (c) Reviews plans and specifications.

   (d) Handles the Lender Appraisal Processing Program (LAPP) and Servicer Appraisal Processing Program (SAPP).

   (e) Handles issues related to builders and construction complaints.

   (f) Assigns VA Loan Identification Numbers.

2. LP. This section is responsible for all activities involving the origination of VA home loans, including the following:

   (a) Processes requests from lenders to participate in the VA Loan Guaranty program.

   (b) Processes requests for automatic authority.

   (c) Issues Loan Guaranty Certificates (LGC) on closed VA loans.

   (d) Monitors performance of originating lenders and conducts training of program participants.
(e) Provides guidance for processing releases of liability, transfers of ownership, and unauthorized transfers of ownership.

3. LA. This section is responsible for all activities involving VA-guaranteed loans from origination until the loan is paid in full or terminated including the following:

(a) Monitors servicer activities and intervenes as needed during the delinquency and foreclosure process.

(b) Reviews cases and provides additional assistance to borrowers on an exception basis.

(c) Handles borrower and servicer inquiries on current and delinquent loans.

(d) Reviews exceptions on acquisitions, incentives, and claims prior to payment.

(e) Conducts post audits.

(f) Conducts industry and employee training by VA Central Office.

e. Servicer Point of Contact. The VA Central Office Servicer Liaison (COSL) is the servicer’s point of contact for general program, administrative, and training questions. Any questions related to a loan assigned to a technician should be referred directly to that technician for assistance and guidance. VA technicians will also be available to handle any case-specific inquiries on current loans that are not yet assigned, regardless of property location.

1.03 OVERVIEW OF SERVICER RESPONSIBILITIES

a. Servicers play a critical role in the VA Home Loan program, as many essential loan management activities are delegated to them. Among the activities delegated completely or in part are:

1. Delinquent loan servicing.

2. Loss mitigation activities.

3. Appraisal review and determination of fair market value.

4. Determination of net value.

5. Determination of bid type and bid amount at foreclosure.

6. Loan assumptions and releases of liability.

7. Partial releases of security.
b. It is important to note that servicers who do not have automatic authority cannot process releases of liability. Also, authority to review appraisals and issue an NOV on a loan requires automatic authority and participation in SAPP.

c. Given the number and importance of these activities, servicers have a responsibility to both the Veteran and VA. Specifically, VA requires servicers to:

1. Act in the best interest of Veterans and the Government.

2. Service VA loans to the highest standard.

3. Respond timely to Veteran and VA requests.

4. Pursue collection and loss mitigation efforts with a focus on home retention.

5. Provide timely and accurate data to VA.

6. Comply with all applicable laws, regulations, manuals, and formal guidance.

7. Retain documents required for post audit.

1.04 OVERVIEW OF VALERI

a. VALERI is VA’s web-based system that supports both servicers and LA employees.

b. VALERI is central to VA operations and helps monitor servicers and the success of the VA Home Loan program. VALERI also houses reporting tools for servicers and Loan Guaranty managers.

c. The Servicer Web Portal (SWP), within the VALERI application, enables servicers to report events, file claims and appeals, and upload documents for VA access and review. Servicers may also report data through their servicing systems. This process creates and sends a file to VALERI which will generate required events.

d. VA and servicers may access VALERI at: https://www.vbavaleri.com/GSM2.0/default.aspx.

1.05 ORGANIZATION OF THIS HANDBOOK

a. Each chapter in this Handbook includes policy guidance for servicing VA-guaranteed loans and the authority of those actions. Servicers must also be familiar with the material provided in the VALERI Users Guide.

b. This Handbook is organized into core chapters that correspond to the major activities servicers participate in, conduct, or manage. They are:
Chapter 1: Loan Guaranty Overview and Servicing Objectives


2. Chapter 3: General Loan Servicing.

3. Chapter 4: Delinquent Loan Servicing.


5. Chapter 6: Pre-Approval.

6. Chapter 7: Incentive Payment.

7. Chapter 8: Foreclosure.

8. Chapter 9: Refunds.


13. Chapter 14: Claims.


15. Chapter 16: Appeals.


c. Appendices. This Handbook also contains appendices to supplement information provided in the chapters or provide additional material to reference when servicing VA loans. They are:

1. Appendix A: Acronyms.

2. Appendix B: Glossary.
3. Appendix C: State and Territory Tax Due Dates.

4. Appendix D: Military Base Cutbacks or Closings and Homeowners Assistance program.

5. Appendix E: Texas Veteran Land Board Loans.

6. Appendix F: Additional VA Contact Information.


d. **Note:** All references to days refer to calendar days unless otherwise noted.
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2.01 INTRODUCTION

a. The VA Loan Electronic Reporting Interface (VALERI) is a web-based application that supports VA employees and servicers operating in the current regulatory environment. VALERI is central to servicing VA-guaranteed loans.

b. Servicers access VALERI through the Servicer Web Portal (SWP). The SWP is a primary means of communicating with VA about VA-guaranteed loans and enables servicers to report events, submit claims, submit appeals, upload documents, and access various reports. VA provides status and feedback on all loans through timely and reliable reports through the Reports link in VALERI.

c. When servicers utilize a service bureau that has a direct connection with VA, the service bureau submits most servicing events through a nightly file exchange process. Otherwise, servicers utilize the SWP to submit loan events.

d. This chapter will provide an understanding of the following:

1. Servicer interfaces and cycle times.
2. Servicer roles and responsibilities.
3. Servicer event reporting.
4. Case assignment.
5. Accessing VALERI.
7. Reports.

2.02 SYSTEM INTERFACES AND CYCLE TIMES

a. VALERI interfaces with the following VA systems:

1. The Web-enabled Loan Guaranty System (WebLGY). Loan Production (LP) oversees the origination of VA-guaranteed loans. LP uses WebLGY to capture VA baseline loan information such as property, Veteran, lender, and loan data. Construction and Valuation (C&V) is responsible for managing the valuation of VA-guaranteed properties and overseeing all matters
related to fee appraisers, the Lender Appraisal Processing Program (LAPP), and the Servicer Appraisal Processing Program (SAPP). C&V uses WebLGY for appraisal requests and to capture appraisal information.

(a) Updates nightly.

(b) Two-way direction.

(c) Information sent to VALERI includes baseline loan information, NOV issue date, NOV expiration date, and NOV “as-is” amount.

(d) Information sent by VALERI includes loan status update and Veteran entitlement updates.

2. The Centralized Property Tracking System (CPTS). Property Management (PM) is responsible for the preservation, marketing, and sale of acquired properties and uses CPTS to manage this function.

(a) Updates nightly.

(b) Two-way direction.

(c) Information sent to VALERI includes post-sale analyses, redeemed properties, and property address changes.

(d) Information sent by VALERI includes acquired properties, changes in capital value, and returns of custody.

3. The Financial Management System (FMS). The Office of Finance oversees the day-to-day VA financial operations and uses FMS to manage this function.

(a) Updates nightly.

(b) Two-way direction.

(c) Information sent to VALERI includes payment status details, notification of servicer payment or offset closing out a bill of collection, vendor information update, and all payments for incentives, claims, and acquisitions.

(d) Information sent by VALERI includes payment transaction data and bill of collection established.

2.03 SERVICER ROLES AND RESPONSIBILITIES

a. Access to certain functions in VALERI is based on specific roles and responsibilities for servicers. Employees within a servicing organization are assigned one of the following roles:
1. Employee (with or without Company Administrator ability).

2. Administrator (with or without Company Administrator ability).

2.04 SERVICER EVENT REPORTING

a. Under Title 38 Code of Federal Regulations (CFR), Section 36.4317, servicers must report events to VA to provide updates on the status of their loans. The reporting requirements apply to all VA-guaranteed loans, excluding manufactured homes that are not affixed to a permanent foundation, as defined in 36.4301. All data and events are reported electronically through VALERI.

b. Servicers report events as they occur, pursuant to regulatory requirements. For example, servicers are required to report the Electronic Default Notification (EDN) to inform VA that a loan is in default when a loan becomes at least 61 days delinquent. VA requires servicers to report data and events in order to monitor its portfolio of active loans and perform oversight of loan servicing activities.

c. Events reported in VALERI contain at least one or more data elements that provide specific information to VA about the loan. All reporting requirements are discussed in detail throughout this Handbook.

d. This section describes the following items regarding servicer event reporting:

1. How servicers report events to VA.

2. Reporting timeframes.

3. Event revision and withdrawal.

4. Late reporting.

e. Servicers Report Events to VA. If a servicer uses a service bureau that has a direct connection with VA, their service bureau will submit data through a nightly file exchange process which results in the creation of most servicing events in the VALERI application. Otherwise, servicers use the SWP to submit all events individually or through the Bulk upload process directly into the VALERI application. See below for additional information on each reporting method:

1. Automatically through a Service Bureau. Servicers are responsible for entering data into their servicing system. That data will then be collected and submitted on the servicer’s behalf through the nightly file exchange from the servicer’s service bureau. When submitted through a service bureau, the data cannot be revised or withdrawn after the file has been submitted to VA.
2. **Manually through the SWP.** Servicers are responsible for submitting the events directly into the SWP by the event due date. When submitting events through the SWP, servicers have the ability to submit, revise, and/or withdraw events as long as the event has not processed in the VALERI application. There are some events that all servicers must report through the SWP. The following events are described in greater detail throughout this Handbook: Basic Claims, Partial Release of Security, Partial Payment Returned, Invalid Sale Results, Foreclosure Attorney Information, and Improper Transfer of Custody.

(a) When reporting manually in the SWP, the user is validating that they acknowledge the following:

(1) User has received the VA training on servicer event administration.

(2) The event being submitted meets the criteria specified by VA in the training for event administration.

(3) The information provided in the event submission is accurate to the best of their knowledge and is substantiated by the accompanying documentation.

(b) VA monitors the use of the Event Administrator feature and should only be used in those situations where it is absolutely necessary and not as a substitute for your servicing system. This feature should be limited to administrative users as required by the servicer. Servicer administrators will be required to sign a document confirming that they understand all necessary guidelines.

(c) If VA determines servicers are misusing their authority to report events through the Event Administration feature on a loan, VA may choose to adjust the guaranty by the amount of any additional loss to the Government.

(d) **Manually through Bulk Upload.** Servicers may also use a bulk upload template to report multiple events at one time through the SWP. The servicer can locate the bulk upload guide and template on the VALERI website at: [http://www.benefits.va.gov/HOMELOANS/servicers_valeri.asp](http://www.benefits.va.gov/HOMELOANS/servicers_valeri.asp). Once data is submitted through a bulk upload spreadsheet, the data cannot be revised or withdrawn after the file has been submitted.

(e) **Note:** All servicers must report any Unauthorized Transfer of Ownership and Extenuating Property Circumstances to VA by telephone, email, fax, or letter, which are described in greater detail in Chapter 3, General Loan Servicing, of this Handbook.

2. **Event Reporting Timeframes.** Servicers must report all events according to VA-specified timeframes. Most events will be reported on either a monthly basis or when the action occurs on the loan.

1. **General Loan Events.**

(a) **Monthly Loan Status Update.** Submitted automatically via a service bureau or manually
through the SWP. The event must be reported by calendar day seven of every month until the loan becomes 61 or more days delinquent.

(b) **Release of Liability.** Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven of the month following the month in which the servicer released the obligor from liability.

(c) **Transfer of Ownership.** Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven of the month following the month in which the servicer learns that an authorized transfer has been completed.

(d) **Unauthorized Transfer of Ownership.** Submitted via telephone, e-mail, fax, or letter. The event must be reported by calendar day seven of the month following the month in which the servicer discovered that the unauthorized transfer of ownership occurred.

(e) **Partial Release of Security.** Submitted manually via the SWP. The event must be reported by calendar day seven of the month following the month in which the holder released the lien on a part of the security for the loan pursuant to 38 CFR 36.4327.

(f) **Loan Paid in Full.** Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven of the month following the month in which the loan was paid in full.

(g) **Servicing Transfer (Transferring Servicer).** Submitted automatically via a service bureau or manually through the SWP by the servicer transferring the loan. The event must be reported by calendar day seven of the month following the month in which servicer sold and transferred the loan.

(h) **Servicing Transfer (Receiving Servicer).** Submitted automatically via a service bureau or manually through the SWP by the servicer boarding the new loan. The event must be reported by calendar day seven of the month following the month in which the servicer boarded the new loan.

(i) **Contact Information Change.** Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven of the month following the month in which the information changed.

(j) **Occupancy Status Change.** Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven of the month following the month in which there was a change.

2. **Delinquent Loan Events.**

(a) **EDN.** Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven after the day 61 of delinquency.
(b) Loss Mitigation Letter Sent. Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven of the month following the month in which the servicer sent the loss mitigation letter to the borrower.

(c) Delinquency Status. Submitted automatically via a service bureau or manually through the SWP. The event must be reported calendar day seven of the month following the month in which the servicer reported the delinquency to VA and once per month by day seven until default cures or the loan terminates.

(d) Default Cured/Loan Reinstated. Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven of the month following the month in which the default cures.

(e) Default Reported to Credit Bureau. Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven of the month following the month in which the servicer reported the default to the credit bureau.

(f) Partial Payment Returned. Submitted manually via the SWP. The event must be reported by calendar day seven of the month following the month in which the servicer returned the partial payment to the borrower.

(g) Foreclosure Attorney Contact Information. Submitted automatically via a service bureau or manually through the SWP. Event should be reported by calendar day seven after the day the servicer refers the case to a foreclosure attorney.

3. Loss Mitigation Events.

(a) Repayment Plan Approved. Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven of the month following the month in which the servicer approved the repayment plan.

(b) Special Forbearance Approved. Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven of the month following the month in which the servicer approved the special forbearance agreement.

(c) Loan Modification Approved. Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven of the month following the month in which the servicer approved the loan modification.

(d) Loan Modification Complete. Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven of the month following the month in which the borrower executed the loan modification agreement.

(e) Compromise Sale Complete. Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven of the month following the month in which the compromise sale closed.
(f) Deed-in-Lieu (DIL) Complete. Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven after the deed is recorded or sent for recording.

4. Foreclosure Events.

(a) Foreclosure Referral. Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven after the day the servicer refers the case to a foreclosure attorney.

(b) Foreclosure Sale Scheduled. Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven after the day that the servicer is notified of the scheduled sale date.

(c) Results of Sale. Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven after the sale.

(d) Confirmed Sale Date with no Transfer. Submitted automatically via a service bureau or manually through the SWP. Event must be reported by calendar day seven of the month following the month the sale is confirmed if the servicer is not transferring custody of the property to VA. The event is only reported in confirmation/ratification of sale states.

(e) Transfer of Custody. Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day 15 from the date of loan termination (for foreclosure and DIL of foreclosure only).

(f) Invalid Sale Results. Submitted manually through the SWP. The event must be reported by calendar day seven after the servicer discovered that the foreclosure sale was invalid.

(g) Improper Transfer of Custody. Submitted manually though the SWP. The event must be reported by calendar day seven after the servicer discovered that the transfer of custody of the property to VA was improper.

(h) Note: The event may NOT be reported unless the acquisition payment has been certified by VA.

5. Claim Events.

(a) File a Claim. Submitted manually through the SWP. The event must be submitted by calendar day 365 after loan termination (non-refund loans) or by calendar day 60 after the loan has been approved for refund (refunded loans).

(b) File a Supplemental Claim. Submitted manually through the SWP. The event may
only be submitted after the File a Claim event, but before calendar day 365 after loan termination (non-refund loans) and only include items omitted from the File a Claim event. Servicers do not have an option to file a supplemental claim on refunded loans.

6. Bankruptcy Events.

(a) Bankruptcy Filed. Submitted automatically via a service bureau or manually through the SWP. The event must be reported by calendar day seven after the servicer discovers that the obligor has filed for bankruptcy.

(b) Bankruptcy Update. Submitted automatically via a service bureau or manually the SWP. The event must be reported by calendar day seven after a significant bankruptcy event has occurred (relief of stay filed, discharge, dismissal, stay lifted).

7. Not all events are reported monthly or on the date the action occurred. Servicers report the following events to VA within specified timeframes:

(a) Revision and Withdrawal. If a servicer reported an event to VA erroneously, they may only revise or withdraw the event if the event was reported directly into the SWP and is still in a pending status. Servicers cannot withdraw or revise any event once the file has been submitted either through a bulk upload spreadsheet or through a service bureau nightly file.

(1) If a servicer reported an event erroneously, but the timeframe for revising or withdrawing an event has passed, they must contact the VA technician assigned to the loan. The VA technician will review the file to determine if cancelling the event is the correct action to take in VALERI and document the loan file. If the loan is unassigned, the servicer must contact the Regional Loan Center (RLC) of jurisdiction or the VALERI helpdesk for review and assistance.

(b) Late Reporting. For every event a servicer submits to VA, VALERI records information regarding the timeliness of the submission. An event is reported late if the servicer fails to submit the event in accordance with the VA-specified timeframe. Late reporting is a regulatory infraction that may affect a servicer’s performance rating.

2.05 CASE ASSIGNMENT

a. Cases in default are assigned to a technician, based on a nationwide workload. VALERI will not assign a post-audit review to the same technician that was assigned the loan when it was first reported in default. This section discusses the following functions in VALERI:

1. Assignment of cases in default.

2. Assignment of cases for post audit.

3. Reassignment of cases.
b. Assignment of Cases in Default. After a servicer reports an EDN, the case is automatically assigned to a VA loan technician. The VA technician is assigned to the case until the following conditions are met:

1. The loan is reinstated or terminated.
2. Timeframes for claim filing, system processing, payment certification, and/or appeals have expired.
3. If a loan subsequently goes into default after it has reinstated, it will be reassigned to VA technician once the new EDN is reported.

c. Assignment of Cases for Post Audit. VALERI assigns a loan requiring a post-audit review to a technician that was not originally assigned to the loan.

2.06 ACCESSING VALERI

a. VALERI is a web based application which provides technicians and servicers the ability to gain access to VA-guaranteed loan data. Users log on to the website at: https://www.vbavaleri.com/GSM2.0/LoginForm.aspx. The following sections describe the applications that are available:

1. SWP. This application allows servicers access to information and the ability to report on each loan.
2. Reports. The Reports application allows servicers access to available servicer reports within the VALERI application.

2.07 SERVICER WEB PORTAL APPLICATION

a. The SWP is an application that enables servicers to:

1. View, filter, search, and sort current or delinquent loans within the servicer’s portfolio.
2. Review detailed information on a VA-guaranteed loan, including events generated by data submitted by the servicer.
3. Upload and view documents.
4. Submit appeals.
5. File claim and supplemental claims.

b. The navigation panel on the left hand side of the SWP allows servicers functionality through various links:
1. **Loan Search.** Allows servicers to perform a search for loans within their portfolio.

2. **Transfer Loan.** Link allows a servicer to transfer a loan from another servicer into their portfolio.

3. **Exit Portal.** Allows the user to exit from the SWP and returns the user back to the application screen.

4. **Logout.** Logs a user out of the VALERI application website and back to the login screen.

5. **Payment History.** Displays the payment transactions for the loan. It details information on the transaction type, payment amount, payment date, and payment status.

c. The SWP Announcements panel displays current and archived notices issued by VA Central Office. Within the SWP, users can view the following information:

1. The Loan Information screen shows loan information along with all events a servicer reports on the loan. Events are located under the Event Inbox, which shows the business rules and data elements associated with each event submitted by the servicer. For each event, VALERI displays the status, the date that event was reported, and the date the event was processed. Events can be in one of five types of status:

   (a) **Pending.** This event has yet to be processed.

   (b) **Unprocessed.** This event was withdrawn or cancelled by the servicer prior to processing.

   (c) **Accepted.** The event was evaluated correctly and does not require further review.

   (d) **Accepted with Errors.** The event has been accepted, but with at least one failed business rule that will require further review by a VA technician.

   (e) **Rejected.** There was at least one fatal business rule failure, which caused VALERI to reject the event.

   d. In addition, servicers can view all withdrawn and cancelled events by clicking on the Show All option.

2.08 **REPORTS**

a. Servicer administrators have the ability to access the Reports Link on the Application screen of VALERI for information on all loans within their portfolio. VALERI provides status, updates, and feedback on loans through these reports. Reports that servicers can access include the following:
1. **Acquisition Payment Status Report.** This report provides a list of certified acquisition payments, including the date and total amount certified.

2. **Adequacy of Servicing (AOS) Action Report.** This report provides a list of loans in which an AOS process has opened within the selected date range.

3. **Appeal Status Report.** This report provides a list of the appeals filed, the status of the appeals, the amounts associated with the appeals and the results of VA’s review.

4. **Bill of Collections (BOC) Status and Offsets Report.** This report provides a detailed description on all BOC activities, including specific line items, VA decisions, and BOC amounts. The report also summarizes the amounts collected and offsets applied. A BOC may have multiple line items, multiple cash receipt transactions and multiple offset transactions.

5. **Claim Payment Status Report.** This report provides a list of all certified claim payments, including the date and the total amount certified. Claims may have multiple credits, advances, and liquidation expenses incurred.

6. **Claims Summary Report.** This report provides a summary list of certified claim payment activities. Specifically, the report provides the date VA certified the claim payment, the claim amount, and VALERI’s calculation of total eligible indebtedness.

7. **Incentive Payment Status Report.** This report provides a list of certified incentive payment activities. It also provides the date VA certified the incentive payment and the total amount certified. The incentive payments for DIL and compromise sales are reflected in the Claim Payment Status report.

8. **Non Matching Report.** This report assists servicers in determining when submitted events have not been generated in VALERI due to non-matching information. The report details the non-matching information that prevented the event from generating. The servicer can use the information provided to correct the data in their system so that future events can be reported. The report applies only to servicers who have direct connections to VA through their service bureau and servicers who submit events to VA using the bulk event upload option.

9. **Payment Denial Report.** This report provides a list of payments that were denied by VA, including the payment type, amount, and denial date.

10. **Post Audit Results Report.** This report provides details on all certified post audits and lists any adjusted line items, results in payment adjustments, and/or BOC.

11. **Post Audit Selection Detail Report.** This report provides a list of all cases selected for post-audit review and specific detailed case information.

12. **Post Audit Selection Report.** This report provides a list of all open cases selected for post-audit review.
13. **Pre-Approval Status Report.** This report lists the current status of pre-approval requests submitted within a specified date range.

14. **Reconveyance Status Report.** This report provides a list of the properties VA reconveyed and includes the date and reason of reconveyance.

15. **Refund Status Report.** This report provides details of all levels of VA refund reviews.

16. **Servicer Action Required Report.** This report provides a list of loans in which a Review Substantial Equity, Review Early Payment Default or Review Suspicious Loan Modification process has opened during a selected date range.

17. **Servicer Default Resolution Rate Report (DRR).** This report provides the percent of defaulted VA-guaranteed loans that are successfully resolved via a loss mitigation option based on the joint efforts of VA and loan servicers.

18. **Servicer Events Report Log Report.** This report provides processing status information on all servicer events received by VALERI and includes dates for reporting and processing, all business rules applied and the results for each event.

19. **Servicer Loan Listing Report.** This report provides a list of all loans belonging to the selected servicer, along with key borrower, property, loan and event details.

20. **Servicer Refund Status.** This report provides a list of all VA refund considerations and provides VA’s final determination within a selected date range.

21. **Servicer User Audit Report.** This report provides details regarding servicer employee information and access.

22. **VA Contact Information Report.** This report provides contact information for the VA technician assigned to each loan in the servicer’s portfolio in which an EDN has been reported.

b. Servicers have the ability to schedule reports that are needed on a reoccurring basis. For detailed instructions on how to schedule reports, please refer to Scheduling Reports Users Quick Reference Guide on the VALERI Internet at: [http://www.benefits.va.gov/HOMELOANS/servicers_valeri.asp](http://www.benefits.va.gov/HOMELOANS/servicers_valeri.asp). All reports can be exported from VALERI. For more information on each of these reports, refer to 2.08 in this chapter.

**2.09 POLICIES FOR REQUIREMENT OF PAPER DOCUMENTATION**

One of the goals of the VALERI application is to promote a paperless environment. Servicers must upload all documents in the VALERI application. Documents are managed through the Submit Documents link in the SWP. If circumstances prevent a servicer from uploading documents in the VALERI application, servicers must submit documentation to the VA-assigned technician if the loan is in default. If the loan is not in default, the servicer must submit the
documentation to the RLC office of jurisdiction where the property is located. For RLC office of jurisdiction information, refer to Appendix F.

2.10 USER MANAGEMENT

a. The user management function is performed by each servicer's VALERI Company Administrator(s). Company administrators can manage user profiles and create new profiles for their office. This function is completed by selecting the Users Link on the VALERI toolbar. VA does not create or edit user profiles for services; users must contact their company administrator for assistance. The Servicer User List is available in reports to assist in monitoring employee access. VALERI allows administrators to:

1. Reset user passwords and have VALERI send a system-generated password to the user by email.

2. Creates or modifies a user profile for access to the SWP or Reports.

3. Change user account information.

4. VALERI locks a user out of the system if the user attempts to log in using an incorrect password more than five times. When this happens, the company administrator will need to unlock the user’s profile and show the user as an active employee. Employees who have forgotten their password before getting locked out of the application can select the “Forgot Password” link to reset their own password.
## CONTENTS

**CHAPTER 3. GENERAL LOAN SERVICING**

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3.01 INTRODUCTION

a. Servicers are responsible for reporting loan events electronically on all current loans to VA throughout the life of the loan in accordance with 38 CFR 36.4317. Late reporting is a regulatory infraction that may affect a servicer’s tier ranking. Occasionally, servicers may need to report information through email, telephone, fax, or letter. Information may also be received directly from borrower(s) contacting VA regarding their loan such as escrow inquiries, payment disputes, etc.

b. Servicers must service VA loans within the requirements of VA regulations. Each servicer determines the best approach to fit individual borrower circumstances and is required to comply with all applicable local, state, and Federal laws, such as the Real Estate Settlement Procedures Act (RESPA), and regulations governing the VA Home Loan program.

3.02 REQUIREMENTS FOR A SERVICING ORGANIZATION

a. VA expects servicing organizations to operate in a manner consistent with industry standards and in compliance with VA requirements and RESPA. Specifically, servicers must comply with:

1. Servicing operations requirements (38 CFR 36.4350(b)). All borrowers must be informed of the procedures and systems available for obtaining answers to inquiries and reminded of these systems at least annually. Servicers must also provide toll-free or collect calling services at an office capable of responding to requests for information.

2. Quality control procedures (38 CFR 36.4350(i)). VA requires servicers to have internal controls in place that periodically assess the quality of servicing of VA loans and assure VA servicing standards are met. Servicers must conduct an internal assessment of their servicing activity at least annually. This includes:

   (a) Collecting and maintaining appropriate data on delinquency rates, loss mitigation options, and foreclosure rates to enable servicers to evaluate the effectiveness of collection efforts.

   (b) Determining how VA delinquency and foreclosure rates compare with individual servicer’s loan portfolios and with rates in reports published by the industry, investors, and others.

   (c) Analyzing significant variances between the servicer’s foreclosure and delinquency rates and those found in reports and publications, and taking appropriate corrective action.

   (d) Adhering to requirements for responding to written borrower inquiries to include current RESPA guidelines.

3. Electronic reporting requirements (38 CFR 36.4319). Holders of VA-guaranteed loans must report certain events to VA according to VA-specified timeframes. This applies to all VA-guaranteed loans that are of type 2 or 6, except for loans where the mortgage purpose type is for
a manufactured (mobile) home not affixed to a permanent foundation. Events must be reported electronically or, for events that are not reported electronically, by telephone, e-mail, fax, or letter so that VA loan technicians can enter the information into the VA Loan Electronic Reporting Interface (VALERI).

(a) Electronic reporting requirements do not apply to loans where the mortgage purpose type is for a manufactured (mobile) home not affixed to a permanent foundation, or loans VA sold to private lenders under 38 CFR 36.4600. The reporting requirements of the 38 CFR 36.4200 series and 38 CFR 36.4600, respectively, still apply to these loans.

b. VA recognizes that the holder of the VA loan as defined in 38 CFR 36.4301 is ultimately responsible for compliance with VA regulations, however, for performance measurement purposes, VA will monitor servicer compliance with these reporting requirements. A servicer is defined as the servicing agent of a holder or the holder itself if the holder is performing all servicing functions on a loan. [Refer to the document titled VA 4600 Repurchase and Mobile Home Loan Information at: http://www.benefits.va.gov/HOMELOANS/servicers_valeri.asp.

3.03 SERVICER PERFORMS GENERAL LOAN SERVICING ACTIVITIES

a. Servicers are required to comply with general loan servicing requirements for VA-guaranteed loans and must follow the appropriate procedures for:

1. Maintenance of records (38 CFR 36.4333). Servicers must maintain a record of loan payments received, disbursements made, and dates of all transactions for each account until VA ceases to be liable as a guarantor on the loan or, if VA paid a claim on the guaranty, until 3 years after VA paid the claim. If servicers are unable to support a claim with complete accounting records, VA assumes that all payments were received and applied as scheduled during the period for which no records were provided. Servicers must also maintain records supporting a decision to approve any loss mitigation options for a minimum of three years following receipt of any incentive payment for the option. These records shall include, but not be limited to, credit reports, verifications of income, employment, assets, liabilities, and other factors affecting the obligor’s credit worthiness, worksheets, and other documents supporting your decision.

2. Income tax statements (38 CFR 36.4350(2)(c)). VA requires servicers to be fully compliant with RESPA when providing statements for income tax purposes to borrowers. Servicers are required to provide the borrower with a statement of the interest paid and the taxes disbursed from the escrow account during the preceding year within 30 days after the end of each calendar year. At the borrower’s request, servicers must furnish a statement of the escrow account that enables the borrower to reconcile the account.

3. Advances (38 CFR 36.4314). Where legally permitted to do so, servicers may advance any amount reasonably necessary and proper for:

(a) Maintenance or repair of the security.

(b) Payment of accrued taxes, special assessments, and ground or water rents.
(c) Premiums on fire, flood, or other casualty insurance against loss or damage to the property.

(d) Funding fee of one-half of one percent for a transfer of ownership if it is not paid at the time of transfer and the loan originated on or after March 1, 1988.

(e) A servicer may not include advances for payment of condominium or planned unit development homeowners’ association assessments in the accounting between a holder and VA unless these fees are a lienable item that survives a foreclosure under state law.

4. Prepayments (38 CFR 36.4311). The borrower has the right to repay at any time, without a premium or fee:

(a) The entire indebtedness.

(b) Any amount not less than the next monthly principal installment or $100, whichever is less.

(c) Any prepayment less than payment in full, which is made on a day other than an installment due date, need not be credited until the following installment due date, or 30 days after the prepayment, whichever is earlier. For example, if a $150 prepayment is received on March 21, and the monthly installment due date is March 30, the payment should be credited on March 30. This is because March 30 is fewer than 30 days after the prepayment was received.

(d) The following requirements also apply to prepayments:

(1) Servicers may accept prepayment amounts which are smaller than the minimum required by regulation.

(2) Payment in full must be accepted and credited to the loan account when tendered, and no interest may be charged thereafter.

(3) The servicer and the borrower may agree at any time to re-apply prepayments to cure or prevent a default.

5. Late Charges (38 CFR 36.4312). VA allows servicers to assess late charges and certain other fees in accordance with VA guidelines. VA encourages consideration of waiving fees and charges when it will help a borrower prevent or resolve a delinquency. Late charges may be collected on any installment received more than 15 days after its due date, provided the loan instruments contain a provision for a late charge. In addition, the late installment must be paid before the late charge is collected. The late charge may not be:

(a) More than four percent of any installment (installment = principal + interest + taxes + insurance).

(b) Based on an amount greater than the past due installment.
(c) Collected from the escrow account or from an escrow surplus without prior approval of the borrower, in accordance with RESPA.

(d) Deducted from regular payments.

(e) A late charge discourages late payments only when the borrower is able to pay on time, but does not do so. If a borrower is cooperative, but unable to pay, or if collection of late charges could prevent a borrower from reinstating a delinquent account, consideration should be given to waiving the late charge.

6. Other Fees (38 CFR 36.4813). Fees for services outside the scope of the usual mortgage transaction depend on the terms of the loan agreement and should be determined by the parties involved. Such charges must be reasonable, considering the work involved and the amount customarily charged in the locality. The charges listed below, while not allowable on a claim under the guaranty, are not considered improper when they are customary, agreed to by the parties, permissible under the loan agreement, and are reasonable in amount:

(a) Loan assumption fees.

(b) Processing and reprocessing checks that are returned to the servicer for insufficient funds.

(c) Substitution of hazard insurance policies during the life of a previously furnished policy, when substitution is made at the request of the mortgagor.

(d) Processing partial releases of the mortgaged property.

(e) Processing subordination agreements.

(f) Marking the mortgage satisfied if authorized or not prohibited by local law.

7. Payment of taxes (38 CFR 36.4316). Security instruments uniformly require the obligor to pay taxes timely to prevent a lien with priority over the mortgage. Most security instruments require maintenance of an escrow account by the servicer to ensure timely payments. Since VA requires the holder to maintain the priority status of the mortgage lien, servicers must have internal controls in place to confirm tax payments by the holder or the obligor. VA will not reimburse late tax penalties should a claim be filed.

8. Insurance. VA has specific requirements related to insurance. Servicers are responsible for complying with VA regulations and following the guidelines described in this section as they relate to:

(a) Hazard insurance (38 CFR 36.4329). It is the servicer’s responsibility 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. VA recommends coverage that is the lesser
of the insurable value of the property or the current loan principal balance. The borrower may take out a larger policy, if desired. Subject to reasonable requirements of mortgagees, borrowers may choose their insurance carrier.

(b) **Flood insurance (38 CFR 36.4329).** VA requires flood insurance on loans closed on or after March 2, 1974, and located in a special flood hazard area designated by the Federal Emergency Management Agency (FEMA). In these areas, flood insurance is usually available under the National Flood Insurance Program and may also be available through private insurers. The amount of insurance should be the lesser of the outstanding balance of the loan or the maximum amount of coverage available.

(c) **Force placed insurance.** Force placed insurance is a special policy purchased by the servicer to cover the loan when the borrower’s insurance lapses or is cancelled. If insurance coverage cannot be obtained except at a high premium and the servicer is requesting reimbursement for an advance to pay for force placed insurance, the following information should be provided to VA at the time of claim submission:

1. Amounts advanced by the servicer to obtain and/or continue yearly or monthly force placed insurance coverage.
2. The effective date for force placed insurance.

9. **Escrow accounts (38 CFR 36.4350).** Although VA does not require servicers to collect periodic deposits for tax and insurance or maintain a tax and insurance account, they may do so if authorized under the terms of the security instruments. Servicers must comply with the provisions of RESPA and properly apply or disburse any surplus balance accordingly.

10. **Application of funds (38 CFR 36.4316(b)).** Payments received from the borrower must be applied in accordance with the terms of the mortgage instruments. Servicers must comply with the provisions of RESPA for the timely application of funds.

(a) Partial payments received from the borrower and held in a suspense account should be applied as soon as the aggregate of funds is sufficient to be applied as a full installment. Payments should not be applied first to other amounts due (i.e., attorney fees and costs) unless specifically agreed to by the borrower in writing or by court order.

(b) Ineligible partial payments must be returned to the borrower within ten days. Refer to Chapter 4, Delinquent Loan Servicing, Partial Payment, of this handbook for more information on handling partial payments.

11. **Legal proceedings (38 CFR 36.4321).** Any time VA is named as a party to a legal proceeding on a VA-guaranteed loan (including probate and bankruptcy proceedings), servicers must provide copies of notices about the legal action to the VA Regional Counsel with jurisdiction over the loan. Servicers must also provide copies of notices to the United States Attorney in that area, so that an appropriate answer to the action can be filed. VA no longer requires servicers to send copies of all legal or procedural papers on regular foreclosures or other
actions taken (e.g. motions for relief in bankruptcy cases), unless VA is named as a party to the proceedings.

(a) If a Veteran has filed one or more bankruptcies and his or her loan is at least 61 days delinquent, the bankruptcy must be reported to VA electronically. In addition, bankruptcy status updates must be reported electronically each time a significant event with respect to the bankruptcy occurs. Refer to Chapter 4, Delinquent Loan Servicing, of this handbook for information on reporting bankruptcy events.

12. Servicemembers Civil Relief Act (SCRA). The SCRA provides relief for Veteran borrowers called to active military service. Relief applies to loan obligations the Veteran incurred prior to their current period of service. Veterans are eligible for relief if their ability to maintain the loan obligation has been materially affected by entry into military service. The Act also applies to Reservists and National Guard members called to active military duty.

a. VA does not administer the Act, but seeks to ensure that Veterans receive all protections to which they are entitled. Enforcement of the Act is delegated to any court of competent jurisdiction of the United States or of any state. VA advises servicers to consult counsel to ensure compliance with all provisions of the Act, as well as any local statutes that may require the extension of forbearance.

b. At claim, servicers report SCRA-related data for purposes of interest determination. VA will not include interest on the obligation in excess of six percent for the period of time the Veteran was eligible for the rate reduction provisions of the Act. For more information on SCRA, refer to the VA Loan Guaranty website at: http://www.benefits.va.gov/homeloans/.

3.04 SERVICER REPORTING REQUIREMENTS (38 CFR 36.4317)

a. General loan events reported on current loans provide a snapshot of how each loan is performing and allows VA to forecast future liabilities. The following events are required to be reported by the servicer on current VA-guaranteed loans:

1. Monthly Loan Status Update. VA requires servicers to report a Monthly Loan Status Update (MSU) for all VA loans that are current or fewer than 61 days delinquent. Each update includes the unpaid principal balance and the payment due date. If a loan becomes at least 61 days delinquent, servicer will then report a monthly Delinquency Status Update rather than the MSU.

2. Servicing Transfers. There are two event servicers must report when they sell and purchase loans. The servicer selling the loan must report the Servicing Transfer-Transferring Servicer event and the servicer purchasing the loan must report the Servicing Transfer-Receiving Servicer event. This process enables both servicers to report accurate data.

3. Release of Liability. Servicers must report the Release of Liability event, regardless of the loan status, when an obligor has been released from liability. A mortgagor remains liable on the VA-guaranteed mortgage indebtedness unless he or she is released from personal liability.
Assumptions of loans for which loan commitments were made on or after March 1, 1988, must have the prior approval of VA or a VA automatic lender. With some exceptions, approval of an assumption of a loan releases the Veteran from any future liability to VA, including liability for any loss resulting from the default of the purchaser or subsequent owner of the property. Failure to secure approval could lead to the acceleration of the loan after the transfer.

(a) Assumptions and releases of liability are generally processed by holders and include a funding fee and processing charge. The release of liability agreement does not release the Veteran’s entitlement, unless the person assuming the loan is a Veteran who has entitlement available to use as a substitute. VA Loan Production (LP) is responsible for examining releases of liabilities that servicers have completed and providing guidance. For more information, refer to the VA Lender’s Handbook, Chapter 5, Topic 7.

4. Transfer of Ownership (38 CFR 36.4309, 38 CFR 36.4303(l)). Servicers are required to report the transfer of ownership event, regardless of the loan status, when they learn that an authorized transfer of ownership has been completed. VA requires this event to determine the liable obligor on the loan.

(a) VA requires servicers to report the Transfer of Ownership event in VALERI when the title holder of the property securing a VA-guaranteed loan changes. Servicers are required to process a release of liability on loans originated on or after March 1, 1988, before reporting the transfer of ownership. A release of liability is not required before reporting a transfer of ownership on a loan originated before March 1, 1988. VA requires the transfer of ownership event to determine the liable obligor on the loan. If the loan is or becomes 61 or more days delinquent, VA expects liable obligors to participate in any effort to cure the delinquency.

(b) Servicers should advise any borrower who contacts them regarding a transfer of ownership that they may remain liable to VA for any loss that may occur as a result of a future default and subsequent claim payment. The borrower should execute a release of liability with the servicer to protect them should the loan go into default.

(c) LP is responsible for providing servicers with guidance for processing assumptions and releases of liability in connection with transfers of ownership.

5. Unauthorized Transfer of Ownership (38 CFR 36.4309). Servicers are required to notify VA via telephone call, email, fax, or letter after learning of an unauthorized transfer of ownership. This information is required to determine whether the unauthorized transfer led to foreclosure and a subsequent claim on the loan. An unauthorized transfer is a transfer of ownership made on a loan originated on or after March 1, 1988, without the prior approval of VA or an automatic lender.

(a) When a servicer reports an unauthorized transfer of ownership, a regulatory infraction for an unauthorized transfer of ownership will be added to the loan. If the servicer fails to report the unauthorized transfer by the seventh day of the month following the month in which they discover that the unauthorized transfer occurred, a regulatory infraction for late reporting will also be included. Refer to Chapter 18, Regulatory Infractions, of this handbook for information...
regarding regulatory infractions. Servicers should attempt to contact the borrower and execute a retroactive release of liability upon hearing of an unauthorized transfer of ownership. Servicers should not accelerate the loan if the loan is performing.

(b) LP is responsible for examining releases of liabilities servicers have completed and providing guidance. For more information, refer to the VA Lender’s Handbook, Chapter 5, Topic 7.

6. Partial Release of Security (38 CFR 36.4327). Servicers are required to report the Partial Release of Security event, regardless of the loan status, when they have released the lien on a portion of the security for the loan. A partial release of security releases a portion of a secured property from the lien. For example, partial releases may involve requests from the state or local government to widen a roadway. Occasionally, borrowers request that portions of their properties be released so that they may subdivide or provide gifts of land to their children or to another recipient. In most cases, the borrowers are paid an amount of consideration for the property. Servicers must follow guidelines established by VA to complete partial releases of security. These guidelines include:

(a) No obligated borrower is released from liability.

(b) The servicer must obtain a VA appraisal on the security, the portion to be released, and the value of the remaining security prior to making a decision regarding a partial release request with the exception of cases such as eminent domain. To order a VA appraisal for a partial release of security, the servicer must contact the C&V office of the Regional Loan Center (RLC) with jurisdiction over the state in which the property is located. Regarding eminent domain cases, if the information provided by, or on behalf of, the borrower is insufficient for making a decision, the borrower must agree to pay for the cost of a VA appraisal.

(c) The consideration received for the release should be equal to the fair market value of the property being released. In state or local Government cases, the amount of the consideration is rarely negotiable, and the property will be taken by eminent domain if the servicer does not grant the release. In these cases, the only decision to be made is the disposition of the compensation. No VA appraisal is required for state and local Government property acquisitions.

(d) The consideration received for the release must be applied to the principal balance unless the loan to value (LTV) ratio is 80 percent or lower. The LTV ratio is calculated using the current principal balance of the loan and the value of the security remaining after the release. For example, a borrower is offered $10,000 for a portion of the security on her/his loan. The consideration is appropriate, and the value of the remaining security will be $190,000 after the release. The principal balance of the loan is $160,000, but the balance must be $152,000 ($190,000 x 0.80) to meet VA’s LTV ratio requirement before the consideration can be released to the borrower. In this case, the servicer must apply $8,000 of the consideration to reduce the principal balance and the remaining $2,000 can be released to the borrower. Failure to apply the $8,000 to reduce the principal balance is a regulatory infraction for a claim adjustment.

(1) The loan must be current if a portion of the consideration is given to the borrower.
(2) If delinquent, a portion of the proceeds may be used to bring the loan current.

(3) The portion of the property still subject to the lien must be fit for dwelling purposes.

7. Loan Paid in Full (38 CFR 36.4303). The Loan Paid in Full event is reported by the servicer when the loan obligation has been fully satisfied by receipt of funds. This event should not be reported when a servicer is transferring the servicing rights to another servicer or when a loan has been terminated or acquired by VA.

8. Contact Information Change. VA requires servicers to report the Contact Information Change event, regardless of the loan status, for all VA loans when they become aware of changes with the borrower’s contact information.

9. Occupancy Status Change. VA requires servicers to report the Occupancy Status Change event, regardless of the loan status, for all VA loans when they become aware of any change in occupancy of the property.

3.05 VA MONITORS GENERAL LOAN EVENTS WHEN NECESSARY

a. VA uses the information provided from general loan events to manage its portfolio of active loans and measure servicer compliance with regulatory requirements. VA does not review all general loan events at the time they are reported, but general loan event information is critical to gaining a complete understanding of the activity on a loan when VA:

1. Reviews the adequacy of servicing on a loan.

2. Conducts a review of an incentive, acquisition, or claim payment.

3. Conducts a post audit.
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### CHAPTER 4. DELINQUENT LOAN SERVICING

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4.01 DELINQUENT LOAN SERVICING

a. A loan becomes delinquent when a borrower misses one or more mortgage payments. Servicers are responsible for servicing delinquent loans and working with the borrower to reach an agreement that will bring the loan current or avoid foreclosure whenever feasible. During the delinquency, VA reviews the loan under the Adequacy of Servicing (AOS) process in order to ensure the servicer is in compliance with VA regulations and to protect the interests of Veterans and the government. In addition to the oversight review, VA may become involved on an exception basis when:

1. A Veteran contacts VA for assistance.

2. VA determines additional assistance is required.

   b. If previous contacts with the borrower have not led to reinstatement of the loan, servicers must send a delinquency letter no later than day 30 of delinquency. This letter is a means to alert the borrower to the delinquency and provide information on making the late payments. The letter should:

   1. State that the loan is in default.

   2. Emphasize the seriousness of the delinquency and the importance of taking prompt action to resolve the default.

   3. Report the total amount due.

   4. Advise the borrower how to contact their servicer in order to make arrangements for curing the default.

4.02 ELECTRONIC DEFAULT NOTIFICATION (38 CFR 36.4317)

a. VA encourages servicers to work with borrowers to resolve delinquencies early and does not require default notification until the loan is 61 days delinquent. The servicer must electronically report the EDN event in the VA Loan Electronic Reporting Interface (VALERI) when a loan becomes 61 days delinquent. Once the EDN event processes, the case will be assigned to a VA technician until the loan is brought current, terminated, or paid in full.

   b. The servicer can submit an EDN event through the Servicer Web Portal (SWP) before day 61 of delinquency in cases where a reason for default such as “imminent default” or “property problems” is reported. Imminent default is determined if the servicer has valid reason/documentation that the borrower will not have the ability to make future payments on the loan.
c. When a loan becomes delinquent and VA is notified, additional oversight is provided to ensure adequate servicing is provided to the borrower. This chapter includes delinquent loan activities that may require additional review by VA technicians.

4.03 ADEQUACY OF SERVICING

a. During the delinquency, VALERI will initiate AOS processes for VA oversight to ensure the servicer is attempting to contact the borrower and service delinquent loans in accordance with VA regulations. Additional AOS processes will open throughout the delinquency to ensure the loan is being adequately serviced.

b. The purpose of the AOS process is to ensure the Veteran has been given every opportunity to pursue all possible loss mitigation options in order to avoid foreclosure. During VA’s oversight of the AOS review, VA technicians may reach out to servicers to obtain updates, collect financial information and/or other pertinent information, and discuss what options are available to the Veteran. If the Veteran contacts VA directly, VA technicians may also obtain this information directly from the borrower.

4.04 DELINQUENT LOAN ACTIVITIES

a. In addition to reporting the loan as delinquent through the EDN and sending the loss mitigation letter, VA requires servicers to report on other relevant information concerning delinquent loans. Servicers are required to conduct these delinquent loan activities throughout the default.

4.05 DELINQUENCY STATUS UPDATE

a. On a monthly basis, VA requires servicers to report the Delinquency Status event on loans where an EDN has been submitted and the loan has not reinstated or terminated. The Delinquency Status event update includes the unpaid principal balance (UPB), payment due date, principal and interest (P&I) portion of the monthly installment, taxes and insurance (T&I) portion of the monthly installment, any other portion of the monthly installment, late charges due, and expenses incurred to date. This is reported monthly until the loan terminates or the default is cured. This update is important for VA to have up-to-date and accurate information for loans that are assigned to VA loan technicians.

4.06 BORROWER CONTACTS (38 CFR 36.4350h)

a. Once a loan becomes delinquent, servicers should contact the borrower in order to reach an agreement that will bring the loan current. VA expects servicers to continue efforts to contact the borrower to reach a plan that will cure the delinquency.

b. Contact with the borrower is critical. When contact is established with the borrower, servicers should evaluate the prospects for curing the delinquency and determine whether any home retention options are feasible. At a minimum, servicers must make a reasonable effort to establish the following:
1. The reason for the default and whether the reason constitutes a temporary or permanent condition.

2. The borrower’s present income and employment.

3. The current monthly expenses of the borrower, including all household and debt obligations.

4. The borrower’s current mailing address and telephone number.

5. A realistic and mutually satisfactory arrangement for curing the default, if applicable.

6. The borrower’s intent with regards to the property.

4.07 LOSS MITIGATION LETTER

a. VA regulations require servicers to attempt contact with the borrower by telephone. The servicer must also send the loss mitigation letter within 45 days of delinquency for Early Payment Defaults (EPDs) and within 75 days of delinquency for non-EPDs. A default is considered an EPD if the borrower becomes delinquent within 6 months following loan origination or the execution of a modification agreement. VA sends an automated loss mitigation letter to borrowers on all loans that reach 120 days delinquent. The loss mitigation letter must:

1. Provide information on how the borrower can contact the servicer.

2. Encourage the borrower to contact the servicer.

3. Explain loss mitigation options available to the borrower.

4. Emphasize that the intent of servicing is to retain home ownership, whenever possible.

b. The letter must also include the following VA-drafted paragraphs:

1. “The delinquency of your mortgage loan is a serious matter that could result in the loss of your home. If you are the Veteran whose entitlement was used to obtain this loan, you can also lose your entitlement to a future VA home loan guaranty. If you are not already working with us to resolve the delinquency, please call us to discuss your workout options. You may be able to make special payment arrangements that will reinstate your loan. You may also qualify for a repayment plan or loan modification.”

2. “VA has guaranteed a portion of your loan and wants to ensure that you receive every reasonable opportunity to bring your loan current and retain your home. VA can
also answer any questions you have regarding your entitlement. If you have access to the Internet and would like to obtain more information, you may access the VA web site at www.va.gov. You may also learn where to speak to a VA Loan Administration representative by calling 877-827-3702.”

c. VA may become involved in the loan’s servicing at other times during the delinquency for reasons such as assistance with appraiser access, requesting forbearance for the servicer/borrower to resolve payment disputes, etc.

d. The servicer may report the Loss Mitigation Letter Sent event when the letter has been mailed to the borrower. This event includes the date the letter was mailed to the borrower.

4.08 CONTACT INFORMATION CHANGE

a. VA requires servicers to report the Contact Information Change event when contact information for the current property owner changes. This event includes any changes to the property or mailing address.

4.09 OCCUPANCY STATUS CHANGE

a. VA requires servicers to report the Occupancy Status Change event when there is a change in the occupancy status. Property occupancy change occurs when the home has been vacated or is occupied by a new tenant.

4.10 REPORTING THE DEFAULT TO THE CREDIT BUREAU (38 CFR 36.4350f; 38 CFR 36.4317)

a. VA requires servicers to report delinquencies to major credit bureaus no later than day 90 of delinquency, which is in accordance with the Fair Credit Reporting Act. Credit bureaus must also be notified of loan terminations, upon their completion. Servicers must inform borrowers that such action will be taken. VA requires servicers to report the Default Reported to Credit Bureau event within 7 days of the month following the month that the servicer reported the default or loan termination to the credit bureau.

4.11 DEFAULT CURED/LOAN REINSTATEMENT

a. VA requires servicers to report the Default Cured/Loan Reinstated event when a default cures and a loan is reinstated. If a default was originally cured in error, usually due to a non-sufficient funds payment or misapplication of funds, then servicers may revise or withdraw the event if VALERI has not yet processed it and the event was manually reported through the SWP. If VALERI has already processed the event or the event was submitted by a servicing system, servicers must call the VA-assigned technician to provide explanation and request assistance to have the event cancelled. VA may need to initiate a manual Bill of Collection (BOC) for any incentive that was paid in error.
4.12 SERVICEMEMBERS CIVIL RELIEF ACT

a. In order to ensure Veterans receive appropriate relief under the Servicemembers Civil Relief Act (SCRA), VA conducts a cursory review during the AOS process to identify if a servicer has determined a borrower is protected under SCRA. To be considered eligible, the loan must meet the following requirements:

1. The servicemember was called to active duty.

2. The servicemember’s loan originated prior to his or her current period of active military service.

3. Active duty military service affects the servicemember’s ability to make payments.

4. The servicemember provided the servicer with a written notice requesting relief and a copy of his or her military orders in accordance with current law.

b. VA is not charged with enforcement of the Act, as that is delegated to any court of competent jurisdiction of the United States or of any state. If violations of SCRA mortgage provisions are discovered, VA will act to appropriately notify the Department of Justice and other stakeholder agencies/regulators of those violations.

c. If a borrower is deemed eligible for SCRA protection in the form of a reduced interest rate, but the loan eventually terminates, the servicer must report the rate change on the Basic Claim event (Refer to Chapter 14, Claims, of this handbook for more information).

4.13 SUBSTANTIAL EQUITY

a. VALERI calculates potential equity by comparing the reported appraised value from WebLGY to the servicer reported UPB. A Review of Substantial Equity process will open for VA review when VALERI determines that the loan-to-value is equal to or greater than 120 percent of the UPB. During this review, VA may contact the servicer to obtain any lien and/or judgment information.

b. If the VA review decision indicates substantial equity exists, the VA-assigned technician may request the servicer to consider postponement of pending liquidation proceedings if there is evidence the borrower desires to maintain home ownership to allow extra time for the borrower to explore other options.

4.14 EARLY PAYMENT DEFAULT

a. VA reviews EPDs any time a servicer reports an EDN and the loan becomes delinquent within 6 months from the first payment due date on the modification agreement. A Review Early Payment Default process will open up for the VA-assigned
technician’s review. Servicers must upload in VALERI the underwriting package to ensure compliance with 38 CFR 36.4340 and Chapter 4 of the VA Lender’s Handbook. The Servicer Action Required report provides a list of loans where an EPD review is required by VA.

b. If the review determines the loan modification was not in compliance with regulations, a regulatory infraction will be automatically added to the loan upon completion of this process. There may be a claim adjustment if a loan terminates and there was an increase to VA’s liability.

c. An EPD that may occur on a loan origination will be reviewed by the Loan Production (LP) Department at the Regional Loan Centers.

d. Loan modifications are discussed in more detail in Chapter 5, Loss Mitigation, of this handbook.

4.15 PARTIAL PAYMENT (38 CFR 36.4316)

a. VA will review all cases where a borrower reports their payment was returned by the servicer. VA must review the circumstances to determine if the payment was improperly returned by the servicer.

b. In the event the servicer returns a payment(s), it must be sent back to the borrower within 10 days from the date of receipt of such payment, with a letter of explanation if one or more of the following conditions exist:

1. The property is tenant-occupied and rental payments are not being submitted to the servicer to be applied to the loan.

2. The payment is less than 1 full monthly installment, including the escrow portion of the payment and late charge, if applicable, unless the lesser payment amount has been agreed to under a documented agreement.

3. The payment is less than 50 percent of the total amount then due, unless the lesser payment amount has been agreed to under a documented agreement.

4. The payment is less than the amount agreed to in a documented agreement.

5. The amount tendered is in the form of a personal check and the servicer has previously notified the mortgagor in writing that only cash or certified remittances are acceptable.

6. A delinquency of any amount has continued for at least 6 months since the account first became delinquent and no documented retention agreement is in place.

7. The servicer has initiated foreclosure proceedings by taking the first action required
8. The servicer’s lien position would be jeopardized by acceptance of the partial payment.

c. If none of the above conditions exist, servicers must accept the partial payment by applying the funds to the borrower’s account or holding the funds in a suspense account. When partial payments held in suspense add up to the full monthly installment, including the escrow portion of the payment, servicers must apply the funds to the borrower’s account. A regulatory infraction will be added to the loan if VA’s review shows the servicer failed to accept a partial payment in accordance with VA regulatory requirements. A servicer’s failure to accept a partial payment does not constitute a defense to any legal action to terminate the loan and may result in a partial or total loss of guaranty per 38 CFR 36.4328 (b).

d. Servicers must notify VA when the payment is returned if they do not accept a partial payment for any reason by submitting the Partial Payment Returned event through the SWP.

4.16 BANKRUPTCY

a. When a borrower files for bankruptcy protection, servicers are typically prevented from making contact. Servicers must report the bankruptcy events in VALERI to include the type of bankruptcy (Chapters 7, 11, 13) and provide updates such as relief filed, relief granted, dismissed or discharged. Significant events include:

1. Bankruptcy Filed Event, including the date and chapter filed and who filed the bankruptcy.

2. Bankruptcy Update Event, including the date and action for the update (relief of stay filed, relief of stay lifted, discharged, dismissed).

b. Should a loan terminate subsequent to a bankruptcy filing, VALERI automatically allows an additional 180 days of interest at claim review as long as the Bankruptcy Filed and Update events have been reported in VALERI by the servicer.

4.17 PROPERTY PRESERVATION

a. Servicers are required to protect and preserve the property during the delinquency of the loan. An inspection is required when a servicer is aware of any physical conditions which negatively impact the property value and before day 60 of delinquency or before referring the case to an attorney, whichever is earlier, unless a loss mitigation option is active and the property remains occupied. Additional inspections are required at least once per month after the initial inspection or referral to an attorney.
b. Whenever a servicer becomes aware that the property is vacant, they are required to take appropriate measures to protect the property from vandalism, weather, etc. If a property is confirmed to be abandoned, servicers are required to report the information to VA and begin action to terminate the loan.

c. A regulatory infraction will be added to the loan during post-audit review if the servicer fails to complete all required property inspections per 38 CFR 36.4350(i).

d. For additional information, refer to Appendix H, Property Preservation Requirements and Fees.

4.18 INSURABLE LOSS

a. Insurable loss is any type of property damage that results in an insurance claim. Insurable losses will be captured at the claim stage. Insurable loss reporting is important because it can affect the calculation of total eligible indebtedness. Failure by the servicer to obtain and apply an adequate hazard insurance loss settlement in a timely manner may result in a claim adjustment. Causes of insurable loss include the following:

1. Fire damage.
2. Neglect.
3. Vandalism.
4. Freeze.
5. Storm.
6. Flood.
8. Hail.
9. Tornado.
10. Wind.
11. Mudslide/landslide.
12. Earthquake.
b. When an insurable loss occurs for any reason, servicers are expected to:

1. Ensure appropriate action is taken to secure the property.

2. Ensure the borrower files a claim for the damage with the insurance carrier. If the borrower fails to submit a claim, servicers must file a claim under the mortgagee clause.

3. Ensure that proceeds from the property damage claim are applied to the restoration of the security or to the loan balance.

4.19 EXTENUATING PROPERTY CIRCUMSTANCES

a. Extenuating property circumstances generally refer to unusual property conditions that decrease the value of the property and may in some cases result in the acceleration of the foreclosure sale, an insurance claim, acquisition of the property by the Government for public use, or seizure of the property by law enforcement officials. If extenuating property circumstances occur prior to day 61 of delinquency, servicers may report the EDN to VA by reporting the reason for default as extenuating circumstances by selecting Property Problems. Extenuating property circumstances include the following:

1. Hazardous conditions or material.

2. Significant property deterioration.

3. Condemnation.

4. Natural disaster.

5. Property seizure.

6. Demolition.

7. Other.

b. When there is an extenuating property circumstance, servicers are expected to comply with any ordinances or requirements associated with the extenuating property circumstance and take appropriate action. Servicers must retain all documentation relating to extenuating circumstances.
# CHAPTER 5. LOSS MITIGATION

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5.01 LOSS MITIGATION OPTIONS

a. Loss mitigation is an option available to help Veterans avoid foreclosure on delinquent loans and reduce possible loss to the Government. VA delegates the primary responsibility for loss mitigation to servicers. VA recognizes five loss mitigation options and pays an incentive to the servicer when any of these options are successfully completed. The loss mitigation options are divided into either home retention options or alternatives to foreclosure. Home retention options include repayment plans, special forbearances, and loan modifications. Alternatives to foreclosure include compromise sales and deed-in-lieu of foreclosure.

b. VA also has a refund option that is available for eligible borrowers as an alternative to foreclosure. Please refer to Chapter 9, Refunds, of this handbook for additional information regarding the refunding process.

c. VA technicians may become involved in the loss mitigation process when borrowers contact VA directly to request assistance or when the VA-assigned technician determines that a loss mitigation option should be pursued after reviewing the Adequacy of Servicing (AOS) or Pre-Foreclosure process on the loan.

d. VA encourages servicers to consider loss mitigation options that allow the Veteran to retain their home. However, if circumstances show that the borrower is unable to retain the home or that home retention options are not feasible, the servicer should proceed with reviewing alternatives to foreclosure. Even though VA encourages servicers to consider loss mitigation for retention options, VA regulation does not require such review if the borrower is unable or unwilling to retain their home. Servicers must select the best option for all parties involved as early in the delinquency as possible.

e. A home retention option should not be approved unless it is within the borrower’s financial ability to reinstate the delinquency. The servicer should not require a substantial sum from a delinquent borrower unless there is ample justification. It is inadvisable to encourage a delinquent borrower to obtain funds from another means for a payment to cure the default on the loan. The additional burden of installment payments on such a loan is likely to worsen the already difficult financial position and increase the possibility of future default on the mortgage. Home retention options include:

1. Repayment plan.
2. Special forbearance.
3. Loan modification.
f. If the servicer and the borrower cannot resolve the delinquency through a home retention option, the servicer should consider alternatives to foreclosure. Alternatives to foreclosure include:

1. Compromise sale.

2. DIL of foreclosure.

g. When servicers report a home retention event through their nightly file or manually through the Servicer Web Portal (SWP) and the loan reinstates, the VA Loan Electronic Reporting Interface (VALERI) processes a Default Cured/Loan Reinstated (DCLR) event and VA will review for an incentive payment eligibility. When servicers report an alternative to foreclosure event, VA reviews the incentive payment eligibility at the time of claim review.

h. When loss mitigation options are not feasible, the servicer should immediately refer the loan to foreclosure in order to reduce potential losses to the Government and to ensure the Veteran’s indebtedness is not unduly increased. VA encourages servicers to continue to pursue loss mitigation options even after initiating the foreclosure process.

i. When a servicer completes a loss mitigation or alternative to foreclosure option on a loan that is less than 61 days delinquent, they will need to report the Electronic Default Notice (EDN) event by choosing “imminent default” or, if appropriate, “property problems” as the reason for default. The EDN must be submitted prior to reporting the loss mitigation or alternative to foreclosure event.

5.02  SERVICER REPORTING REQUIREMENTS (38 CFR 36.4317)

a. Loan events reported on loss mitigation provide a snapshot of how each loan is performing and allows VA to forecast future liabilities. The following events are required to be reported by the servicer when a loss mitigation option has been approved/completed:

1. Repayment Plan Approved. The servicer must report the event by the seventh day of the following month once the repayment plan is approved.

2. Special Forbearance Approved. The servicer must report the event by the seventh day of the following month once the special forbearance is approved.

3. Loan Modification Approved. The servicer must report the event by the seventh day of the following month once the loan modification has been approved.

4. Loan Modification Complete. The servicer must report the event by the seventh day of the following month once the borrower and servicer has executed the loan modification agreement.
5. Compromise Sale Complete. The servicer must report the event by the seventh day of the following month once the compromise sale closes.

6. Deed-in-Lieu Complete. The servicer must report the event by day 7 after the deed is recorded or sent for recording.

7. Default Cured/Loan Reinstated. Servicers must notify VA once a borrower reinstates the loan.

5.03 ACCEPTANCE OF ELECTRONIC SIGNATURES

a. VA has no objections to the use of electronic signatures on repayment, forbearance, or modification agreements between loan servicers and borrowers, provided they are readily identifiable during a post-audit review. The Electronic Signatures in Global and National Commerce Act (P.L. 106-229) provides that with respect to any transaction in or affecting interstate or foreign commerce that "a signature, contract, or other record relating to such transaction may not be denied legal effect, validity, or enforceability solely because it is in electronic form." However, VA cautions servicers to ensure compliance with all regulations governing VA-guaranteed home loans, including the requirement to obtain and maintain a lien of proper dignity (38 CFR 36.4354), which will require compliance with local real estate laws, especially concerning documentation of modifications to existing loans, which may vary from region to region.

5.04 REPAYMENT PLAN (38 CFR 36.4301)

a. A repayment plan is a written executed agreement, by and between the borrower and the servicer to reinstate a loan that is a reportable default (61 or more calendar days delinquent) by requiring the borrower to pay the normal monthly payment, plus a portion of the delinquency each month. To be eligible for an incentive, the repayment plan must be established for at least a 3-month period.

b. During the repayment agreement, servicers must monitor the agreement each month and take appropriate action if the borrower does not comply. Plans may be renegotiated at any time.

5.05 SPECIAL FORBEARANCE (38 CFR 36.4301)

a. A special forbearance is a written agreement, executed by and between the borrower and servicer where the servicer agrees to suspend or reduce payments for 1 or more months on a loan that is a reportable default (61 or more calendar days delinquent) and the borrower agree to pay the total delinquency at the end of the specified period or enter into a repayment plan. Typically the period of forbearance is between a 3-to 4-month period. Circumstances such as unemployment, natural disasters, or cases resulting from prolonged illness may prompt the consideration of a longer duration.
b. During the forbearance period, servicers must monitor the agreement and take appropriate action if the borrower does not comply. Agreements may be renegotiated at any time.

5.06  LOAN MODIFICATION (38 CFR 36.4315)

a. A loan modification is a written agreement by and between the servicer and all obligors on the loan, which permanently changes one or more of the terms of a loan and includes re-amortization of the balance due. VA considers the execution date of the loan modification agreement to be the date of the borrower’s signature. The loan modification must be consistent with VA regulatory requirements and sound lending practices. If the loan originated prior to January 1, 1990, and includes a transferee, servicers must ensure that no previous obligor is released from liability by the completion of a loan modification. A loan modification must meet the following conditions:

1. The loan is in default.

2. The event or circumstances that caused the default has been or will be resolved and is not expected to re-occur.

3. The obligor is considered to be a reasonable credit risk based on a review by the servicer of the obligor’s creditworthiness as specified in 38 CFR 36.4340.

4. At least 12 monthly payments have been made since the closing date of the loan.

5. The current owner(s) is obligated to repay the loan and is party to the loan modification agreement.

6. The loan modification will reinstate the loan and cure the default.

7. The loan has not been modified within the past 3 years.

8. The loan has not been modified more than three times over the life of the loan.

9. Must bear a fixed interest rate which may not exceed the most recent Freddie Mac Weekly Primary Mortgage Market Survey Rate for 30-year fixed rate conforming mortgages (U.S. Average), rounded to the nearest one-eighth of one percent (0.125%), as of the date the modification agreement is approved, plus 50 basis points AND no more than 1 percent higher than the existing interest rate on the loan. The new loan modification terms do not exceed the shorter of:

   (a) 360 months from the due date of the first installment required under the new modification, OR

   (b) 120 months after the original maturity date of the loan at origination, unless the
original term was less than 360 months, in which case the term may be extended to 480 months from the due date of the first installment on the original loan.

10. Only the following items may be included in the modified indebtedness: Unpaid principal; accrued interest; deficits in the taxes and insurance impound accounts; amounts incurred to pay actual legal fees and foreclosure costs related to the canceled foreclosure; (subject to the maximum amounts prescribed in §36.4314) the cost of a title insurance policy endorsement or other update for the modified loan; and advances required to preserve the lien position, such as homeowner association fees, special assessments, water and sewer liens, etc.

11. No processing fee charged by the servicer.

12. The servicer will not charge a processing fee, and all unpaid late fees will be waived. Any other actual costs incurred and legally chargeable, but which cannot be capitalized in the modified indebtedness, may be collected directly from the borrower as part of the modification process or waived, at the discretion of the servicer.

13. Servicer ensures the first lien position remains intact.

14. The guaranty dollar amount will not exceed the greater of:

(a) The original guaranty amount of the loan being modified (if loan modified amount is less than the original loan amount, the amount of guaranty will be equal to the original guaranty percent applied to the modified loan amount), OR

(b) 25 percent of the loan being modified subject to the statutory maximum specified at 38 U.S.C. 3703(a)(1)(B).

15. Borrower does not receive any cash back from the modification.

b. If regulatory requirements for a loan modification are not met and the servicer believes the option would be in the best interest of the Veteran and the Government, the servicer must submit a request for pre-approval consideration in VALERI for VA review. Refer to Chapter 6 of this handbook for more information on pre-approvals.

5.07 STREAMLINE LOAN MODIFICATION

a. “Streamline” loan modification options allow servicers to extend permanent payment relief under certain circumstances when the borrower has not submitted a complete loss mitigation application. Previously, the loss mitigation options available to a borrower could only be utilized if the borrower requested loss mitigation assistance and provided financial documentation to the servicer. In an effort to further assist borrowers in retaining their homes, this section explains the VA streamline loan modification.

b. Evaluation of Borrower - Servicer evaluation of the borrower’s financial
information is not required for streamline loan modifications. An exception is granted for 38 CFR 36.4315(a)(3) requiring borrower creditworthiness to be evaluated under the criteria specified in 38 CFR 36.4340. To be eligible for the VA streamline loan modification option, borrowers must successfully complete a 3-month trial payment plan (TPP) period and sign the streamline loan modification agreement in order to receive a permanent loan modification. Participation in the VA streamline modification program is subject to servicer discretion. Participants are encouraged to continue solicitation throughout the borrower’s delinquency and the foreclosure process.

c. Eligibility:

1. Holders will ensure the first lien status of the modified loan.
2. At least 12 monthly payments have been made since the closing date of the loan.
3. The loan must be in default.
4. There must be at least a minimum 10 percent reduction in the monthly principal and interest payment.

   d. Eligibility Exclusions - The loan and/or borrower is ineligible for the VA streamline loan modification option if any of the following apply:

1. The loan is not in default.
2. Less than 12 months of payments have been made since the mortgage loan was originated.
3. The loan has been modified more than three times over the life of the loan.
4. The property securing the mortgage loan must not have been abandoned or condemned.
5. The 10 percent minimum reduction in the monthly principal and interest (P&I) payment cannot be achieved.
6. The loan is not reinstated to performing status by virtue of the loan modification.
7. The borrower previously defaulted on a prior streamline loan modification.
8. At the time the borrower is evaluated for the streamline loan modification, the borrower has submitted a complete loss mitigation application that is currently under review or is performing under a default curing loss mitigation option.
Note: Servicers have discretion to consider other eligibility exclusion criteria including, but not limited to, loans in active bankruptcy, mediation or litigation, upon advice of servicer’s counsel.

e. TPP:

1. A 3-month TPP is required of the borrower to demonstrate their ability to make the modified monthly mortgage payment. The servicer shall send the streamline loan modification TPP agreement within 15-calendar days of the date the servicer determines the borrower to be eligible. If the servicer sends the TPP on or before the 15th day of a calendar month, the servicer must use the first day of the successive month as the first TPP due date. If the servicer sends the TPP after the 15th day of the month, the servicer must use the first day of the second successive month as the first TPP due date. Example: The TPP is sent out on January 14; the date of first payment on the TPP is February 1. The TPP is sent out on January 18; the date of first payment on the TPP is March 1.

2. To accept the offer, the borrower can notify the servicer verbally or make the first TPP. The borrower must make each of the three scheduled trial payments by the last day of the month in which they are due.

f. Final Modification - After successfully completing the three trial payments, the servicer will provide the borrower with the streamline loan modification agreement. The servicer should prepare the Agreement early enough in the trial period to allow sufficient processing time so that the modification becomes effective on the first day of the month following the final trial-period month. If the borrower does not make the final trial payment on or before the due date in the TPP (but does make the final payment before the end of the month in which it is due), then the servicer may complete the streamline loan modification agreement so that the modification becomes effective on the first day of the second month following the final trial period month. The borrower will not be required to make an additional TPP during the (interim) month in between the final trial-period month and the month in which the modification becomes effective. The borrower must sign and return the streamline loan modification agreement and must agree to set up an escrow account for taxes, hazard, and flood insurance prior to the beginning of the TPP if one does not currently exist.

g. Waterfall to New Payment:

1. Capitalization - The servicer must follow 38 CFR 36.4315 with respect to amounts included in the modified indebtedness for a streamline loan modification. The servicer capitalizes accrued interest through the modified effective date and any required escrow advances accrued during the TPP.

2. Interest Rate Adjustment - The interest rate shall be a fixed rate not to exceed the weekly Freddie Mac Primary Mortgage Market Survey Rate for 30-year fixed rate conforming mortgages, rounded up to the nearest one-eighth of one percent (0.125%) as
of the date the modification agreement is approved, plus 50 base points AND no more than 1 percent higher than the existing interest rate on the loan. Servicers may offer an interest rate below the maximum allowable rate at their discretion. Servicers may request pre-approval from VA to complete the modification with an interest rate based on the approval date of the Trial Payment Plan (TPP) instead of the interest rate at the time of the modification approval. All pre-approval requests must be submitted prior to the TPP agreement or loan modification, as VA does not grant pre-approvals for actions a servicer has already completed.

3. Term Extension - The unpaid balance of the modified loan will be re-amortized over the remaining life of the loan, or if the loan term is to be extended, the maturity date will not exceed the shorter of:

   (a) 360 months from the due date of the first installment required under the modification, or

   (b) 120 months after the original maturity date of the loan (unless the original term was less than 360 months, in which case the term may be extended to 480 months from the due date of the first installment on the original loan).

h. Standard servicer incentives for a completed modification will apply.

i. Loss Mitigation Packages - The following guidance applies to circumstances involving the receipt of a loss mitigation package during the streamline process:

1. If the servicer receives a complete loss mitigation package prior to mailing the VA streamline loan modification TPP offer, the borrower is ineligible for the VA streamline loan modification option, and the servicer must evaluate the borrower for the best VA loss mitigation options based on the completed package received.

2. If the servicer receives an incomplete loss mitigation package prior to mailing the VA streamline loan modification TPP offer, the borrower is still eligible for the VA streamline loan modification option. An incomplete loss mitigation package should not affect a streamline consideration, offer of a TPP or a performing TPP. VA is not requiring servicers to obtain a full loss mitigation package from the borrower for review when the aforementioned circumstances exist. A TPP is an active loss mitigation plan with the intent of bringing the loan current and keeping the borrower in the home. The borrower should have the opportunity to successfully complete the TPP and receive a permanent modification. If the TPP fails, then mortgage servicers should follow up to collect relevant information related to the borrower’s circumstances to resolve the delinquency or avoid foreclosure.

3. If the servicer receives a complete loss mitigation package after a TPP has
commenced, a performing TPP should continue while the servicer evaluates the package. A full loss mitigation package may allow the servicer to offer the borrower a more favorable modification. If the servicer determines a more favorable modification should be offered, the borrower should be allowed to continue with the TPP for consistency. The borrower should be notified immediately of the alternate modification terms.

4. If the borrower sends in a full loss mitigation package that indicates an inability to afford the new payment, the TPP should continue so that the borrower has the opportunity to demonstrate their ability and desire to make the payment. A borrower that successfully completes the TPP should receive the earned permanent modification.

5. The servicer must resume follow-up solicitation for an incomplete loss mitigation application in accordance with applicable law if the borrower does not accept the VA streamline loan modification TPP offer.

5.08 COMPROMISE SALE (38 CFR. 36.4322(e))

a. A compromise sale is a sale to a third party for an amount less than the borrower’s total eligible indebtedness (TEI) on the loan. This alternative should be considered when a private sale is not feasible due to little or no equity. The servicer must agree to release the lien in exchange for the proceeds of the sale. The servicer may complete a compromise sale if the following conditions exist:

1. The servicer has determined the loan insoluble. Note: Servicer evaluation of the borrower’s financial information is not required if the loan is 60 or more days delinquent and the borrower has requested a compromise sale. In those instances, exceptions are granted for 38 CFR 36.4350(h)(2) and (3), eliminating a servicer’s requirement to establish employment status, present income of the borrower(s), as well as current monthly expenses of the borrower(s) including household and debt obligations.

2. The net proceeds equal or exceed the net value of the property securing the loan.

3. The current owner of the property will not receive any proceeds from the sale of the property.

b. When a servicer completes a compromise sale option on a loan that is less than 61 days delinquent, they will need to report the EDN event by choosing “imminent default” or if appropriate, “property problems,” as the reason for default. The EDN must be submitted prior to completing the closing for the compromise sale or reporting the Compromise Sale Complete event in VALERI.

c. Any liquidation appraisal for a property originally scheduled for foreclosure will not require a second appraisal if a subsequent compromise sale offer is made on the property. The exterior-only liquidation appraisal will be sufficient to complete the compromise sale without any further delays.
d. If regulatory requirements for a compromise sale are not met, and the servicer believes the option would be in the best interest of the Veteran and the Government, the servicer must submit a request for pre-approval in VALERI. Refer to Chapter 6 of this handbook for more information on pre-approvals.

5.09 DEED-IN-LIEU OF FORECLOSURE (38 CFR 36.4322(f))

a. A DIL of foreclosure is a voluntary transfer of a property from the borrower to the servicer for a release of all obligations under the mortgage.

b. In cases when a default is insoluble and there is little or no likelihood of a private sale, consideration should be given to accept a DIL of foreclosure. Completing a DIL may save on foreclosure costs, cut down on possible decreases in the value of the security, and reduce or eliminate the amount of the Veteran's indebtedness. A DIL is completed when the deed to the servicer from the Veteran is sent for recording or is recorded. The property is considered conveyed to VA when the servicer reports the Transfer of Custody (TOC) event in VALERI. Servicers must submit the full title package to VA’s property management contractor. [Refer to the Title Documentation, Insurance, and Timeframe Requirements on the VALERI Internet for additional information.] Servicers may complete a DIL if all of the following conditions exist:

1. The loan is insoluble. **Note:** Servicer evaluation of the borrower’s financial information is not required if the loan is 60 or more days delinquent and the borrower has requested a DIL. In those instances, exceptions are granted for 38 CFR 36.4350(h)(2) and (3), eliminating a servicer’s requirement to establish employment status, present income of the borrower(s), as well as current monthly expenses of the borrower(s) including household and debt obligations.

2. The VA net value of the property has been determined by subtracting the estimated costs to VA for the acquisition and disposition of the property from the “as is” value available on the Notice of Value (NOV).

3. A clear title can be obtained.

4. An agreement, signed by the borrower, to vacate the property when the deed is recorded or to give possession of the property to VA immediately upon notification to do so.

5.10 NOTICE OF VALUE EXTENSION – ALTERNATIVES TO FORECLOSURE

a. VA requires an appraisal to be valid at the time of closing for the compromise sale or recording (or sent for recording) of the DIL alternative. If a servicer is pursuing an alternative to foreclosure, and the NOV will expire prior to the completion of the alternative, servicers must order a new appraisal before approving or denying the alternative.
b. In rare instances, VA has the ability to extend the NOV if it will expire before a servicer has completed the alternative. If the NOV was valid on the date of approval of a foreclosure alternative, but will expire between approval and completion of the compromise closing date or DIL of foreclosure recorded date, the servicer must request an extension. The request must be submitted to the VA-assigned technician prior to the expiration date of the NOV. The servicer must adequately provide justification as to why the extension is required. Generally, VA will extend an appraisal if the following are met:

1. The NOV extension request is received before the closing of the compromise sale or DIL of foreclosure execution or recorded date, whatever is reported by the servicer.

2. The request is received prior to the NOV expiration date.

3. The appraiser gained access to the property and there are no known extenuating circumstances that exist that may diminish the value of the property.

4. The expiration date will be extended by no more than 14 days.

c. Any requests that fall outside of these general requirements will be reviewed by VA on a case-by-case basis.

d. If a servicer approves a compromise sale or DIL of foreclosure without taking VA’s appraised value into consideration, they are in violation of 38 CFR 36.4322. On a compromise sale, VA will issue a regulatory infraction, not pay a claim until the net value is established, and an adjustment may be made to the claim if VA’s liability was increased. On a DIL of foreclosure, VA will issue a regulatory infraction, will not accept custody of the property, and will not pay a claim until the net value is established. In rare instances, if the servicer discovers and corrects their error, VA may consider acceptance of custody and pay a claim once the net value is established.

5.11 RELOCATION ASSISTANCE FOR VA BORROWERS

a. VA authorizes servicers to advance $1,500 in relocation assistance to borrower occupants who complete a short sale with a VA compromise claim, or who execute a DIL. 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.

b. VA expects servicers to proactively notify eligible borrowers of the availability of foreclosure alternatives, and to encourage completion of a short sale or DIL by providing the homeowner a written agreement describing the requirements for receipt of a relocation incentive. In the case of a DIL, the agreement must specify that the property will be unencumbered by other liens or restrictions on title, it will be kept in good and safe condition, and it will be left ready for sale in “broom clean” condition (i.e., clear of all personal belongings and reasonably clean) upon the homeowner’s departure.
c. Relocation assistance can provide necessary funds to conduct a move or pay for lodging for borrowers who are faced with the loss of their home. For servicers, the transfer of ownership via DIL or short sale is typically shorter than a foreclosure time period, and the property is left in better condition via DIL, which preserves the condition and value of the property by minimizing the time it is vacant and subject to vandalism and deterioration. In addition, alternatives to foreclosure options generally provide a substantially improved outcome over a foreclosure sale for borrowers, investors, and communities.

5.12 LOAN MODIFICATION OVERSIGHT

a. VA performs several reviews during the life of the loan. Reviews are performed to ensure that VA’s liability was not increased due to non-compliance with VA regulatory requirements. The reviews may include suspicious loan modification and early payment default (EPD) on a modified loan.

b. Suspicious Loan Modification (38 CFR 36.4315). VA performs a review of a loan modification if the servicer failed to report all necessary data elements in the Loan Modification Complete event and/or VALERI determines the data has failed regulatory requirements. When this occurs, VALERI will open up a Review Suspicious Loan Modification process for review by the VA-assigned technician. All broken business rules in the Loan Modification Complete event must be reviewed to determine the validity of regulatory infractions. Violations of these infractions could result in VA requesting a revision to the loan modification or possible claim adjustments. Corrections may be required by the servicer if the terms negatively impact the Veteran or the Government. Servicers must complete all corrections within 60 days of notification by VA. Failure to make corrections within the required timeframe could result in VA making an adjustment to the claim if the loan becomes delinquent and subsequently terminates. The following are some errors that may require further VA review:

1. The loan modification did not cure the default.

2. The interest rate on the modified loan exceeds the maximum allowable rate.

3. The term of the modified loan exceeds the maximum allowable term.

4. The new loan does not amortize to within $50 of zero over the new term.

c. EPD on a Modified Loan. VA reviews EPDs any time a servicer reports an EDN and the loan became delinquent within the first 6 months of the first payment due date on the loan modification agreement. When this occurs, VALERI will open up a Review Early Payment Default process for review by the VA-assigned technician. An EPD may be the result of an improper decision by the servicer to modify the loan. VA will complete an analysis of the loan modification underwriting package to ensure it complies with 38 CFR 36.4340 and Chapter 4 of the VA Lender’s Handbook. Servicer errors may result in a regulatory infraction being added and a possible future claim adjustment.
## CONTENTS

### CHAPTER 6. PRE-APPROVAL

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6.01 PRE-APPROVAL

a. VA requires servicers to follow VA regulatory requirements for servicing loans guaranteed by VA, unless extenuating circumstances prevent them from doing so. If servicers must deviate from a regulatory requirement, they can submit a pre-approval request to VA for review. A pre-approval means “prior approval” to deviate from a regulation based on the circumstances of the loan.

b. Servicers may request to deviate from a regulation more than once if circumstances change during the life of the loan. If a servicer needs to deviate from multiple regulations at a given time, they should submit all requests to deviate in one pre-approval request. It is the servicer’s responsibility to adhere to all other regulatory requirements and ensure all actions are in the best interest of the Veteran and Government.

c. Servicers must submit a pre-approval request to the VA Loan Electronic Reporting Interface (VALERI) through the Servicer Web Portal (SWP), along with supporting documentation to justify the need to deviate from a VA regulation.

6.02 PRE-APPROVAL REGULATIONS

a. Pre-approval regulations are:

1. Modifying a current loan (36.4315(a)(1)).

2. Modifying a loan with less than 12 payments (36.4315(a)(4)).

3. Modifying a loan more than once in a 3-year period (36.4315(7)).

4. Modifying a loan more than 3 times (36.4315(7)).

5. Modifying a loan with questionable credit history (36.4315(a)(3)).

6. Modifying a loan with an interest rate exceeding Freddie Mac rate requirements (36.4315(a)(8)(i)).

7. Modifying a loan with an interest rate more than 1 percent higher than an existing rate (36.4315(a)(8)(ii)).

8. Modifying a loan with a term longer than allowable (36.4315(a)(9)).

9. Acceptance of a compromise sale for less than net value (36.4322(e)(1)(ii)).

10. Other regulatory requirement. Any deviation from regulatory requirements caused by unusual circumstances.
b. The VA-assigned technician will review the documentation provided by the servicer, as well as their pre-approval request. If further clarification is needed during the review from the servicer, the technician will contact the servicer. The technician will notify the servicer of VA’s pre-approval decision by email or telephone. VA’s decision can also be viewed on the Pre-Approval Status Report and on the individual case in the SWP.

c. VA will only complete an underwriting review on a loan modification if the servicer is requesting to modify a loan with questionable credit history or requests VA to review underwriting as part of their justification.
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### CHAPTER 7. INCENTIVE PAYMENT

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7.01 INCENTIVE PAYMENT (38 CFR 36.4319)

a. VA administers the incentive payment program to encourage servicers to provide every opportunity for Veterans to retain homeownership or avoid foreclosure. Servicers are eligible for an incentive payment upon the successful completion of a loss mitigation option which meets VA regulatory requirements. Incentive payment amounts may vary based upon the loss mitigation option and the servicer’s tier ranking. VA does not charge any portion of an incentive payment to the borrower and the payment does not affect the guaranty of the loan.

b. If an incentive payment is denied by VA, servicers have 30 days from the denial date to exercise the option to appeal the decision in the VA Loan Electronic Reporting Interface (VALERI). For more information on appeals, refer to Chapter 16 of this handbook.

7.02 ELIGIBILITY FOR PAYMENT

a. If the loss mitigation option meets all VA regulatory requirements, VALERI automatically generates a routine incentive payment by opening a Certify Incentive Payment process. If the completed loss mitigation option does not meet VA regulatory requirements, VALERI will initiate the Review Non-Routine Incentive process, which requires technician review and recommendation. If the payment is approved, VALERI presents the payment to a certifying designee for certification of the payment. If the recommendation to deny the incentive is approved, the process is then complete.

7.03 DETERMINATION OF INCENTIVE AMOUNT

a. VA determines the incentive payment amount based upon the:

1. Most recent home retention option or alternative to foreclosure event submitted on the loan.

2. The servicer’s tier ranking at the time the loan is brought current through a home retention option or completed alternative to foreclosure.

b. Incentive amounts for each loss mitigation option are reviewed and published in the Federal Register when a change occurs. The lists of incentive amounts are located in 38 CFR 36.4319.

7.04 PAYMENT TIMING AND FREQUENCY

a. The incentive is presented for payment on home retention options after VALERI processes a Default Cured Loan Reinstated (DCLR) event or at time of claim for alternatives to foreclosure. Servicers are eligible for one incentive payment per reportable default when a successful loss mitigation option is completed.
b. **Repayment Plan.** VALERI automatically generates a repayment plan incentive payment for certification when all of the following criteria are met:

1. The loan was at least 61 days delinquent during the default period.
2. The servicer reported the Repayment Plan Approved event.
3. VALERI processes a DCLR event.
4. The repayment plan reported by the servicer was for at least 3 months in duration. (The servicer is entitled to an incentive if the borrower reinstates prior to the estimated cure date as long as the plan was established for at least 3 months.)
5. VA did not prevent any incentives to the servicer.
6. There are no business rule failures that would require further review.

c. **Special Forbearance.** VALERI automatically generates a special forbearance incentive payment for certification when all of the following criteria are met:

1. The loan was at least 61 days delinquent during the default period.
2. The servicer reported the special forbearance approved event.
3. VALERI processes a DCLR event.
4. The special forbearance event indicated at least 1 month in duration and the servicer provided an estimated cure date.
5. VA did not prevent any incentive to the servicer.
6. There are no business rule failures that would require further review.

d. **Loan Modification.** VALERI automatically generates a loan modification incentive payment for certification when all of the following criteria are met:

1. The loan was at least 61 days delinquent during the default period.
2. The servicer reported the Loan Modification Approved event.
3. The servicer reported the Loan Modification Complete event.
4. VALERI processes a DCLR event.
5. There are no business rule failures that would require further review.
e. **Compromise Sale.** VALERI automatically generates a compromise sale incentive payment for certification when all of the following criteria are met:

1. The loan was at least 61 days delinquent during the default.
2. The servicer reported the compromise sale complete event.
3. VA did not prevent the incentive to the servicer.
4. The servicer has submitted the claim event and the event has successfully processed in VALERI.
5. There are no business rule failures that would require further review.

f. **Deed-in-Lieu (DIL) of Foreclosure.** VALERI automatically generates a DIL of foreclosure incentive payment for certification when all of the following criteria are met:

1. The loan was at least 61 days delinquent during the default.
2. The servicer reported the DIL Complete event.
3. VA did not prevent the incentive to the servicer.
4. The servicer has submitted the claim event and the event has successfully processed in VALERI.
5. There are no business rule failures that would require further review.
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### CHAPTER 8. FORECLOSURE

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8.01 FORECLOSURE (38 CFR 36.4322)

a. Servicers are delegated the authority to complete all termination actions on a VA-guaranteed loan. When a delinquency cannot be resolved and the loan has been deemed insoluble or the property has been abandoned, the servicer should proceed with foreclosure action. VA encourages servicers to continue loss mitigation efforts even after foreclosure proceedings have commenced. At any time prior to the liquidation sale, servicers must accept funds to cure a delinquency unless the servicer obtained prior written approval from VA, or if reinstatement of the loan would adversely affect the dignity of the lien or is otherwise precluded by state law as (38 CFR 36.4309 (h)).

8.02 SERVICER REPORTING REQUIREMENTS

a. Foreclosure events reported on delinquent loans provide a snapshot of how each loan is performing and allows VA to forecast future liabilities. The following events are required to be reported by the servicer on delinquent VA-guaranteed loans. Submission of several events below requires action by the VA-assigned technician:

1. Foreclosure Referral. Servicers must submit the event to notify VA that they have referred this loan to an attorney to begin foreclosure action on a delinquent loan.

2. Foreclosure Sale Scheduled. Servicers must submit the event to notify VA that a foreclosure sale has been scheduled. In the event the servicer either postpones or cancels a foreclosure sale, a new Foreclosure Sale Scheduled event must be reported within 7 days from the date the servicer learns of the new sale.

3. Results of Sale. Servicers must submit the event to advise VA of the results of the foreclosure sale.

4. Confirmed Sale Date with No Transfer. Servicers must submit the event to notify VA on all loans located in a confirmation state where they have received confirmation, but do not wish to convey the property to VA.

5. Transfer of Custody. Servicers must submit the event to notify VA within 15 days of foreclosure, confirmation of sale, or deed-in-lieu of foreclosure if they wish to convey the terminated property to VA.

6. Invalid Sale Results. Servicers must submit the event to notify VA if they have determined that the foreclosure sale was invalid so the property can be removed from VA’s inventory, if conveyed.

7. Improper Transfer of Custody (TOC). Servicers must submit the event to notify VA if custody was transferred in error so the property can be removed from VA’s inventory.
8.03 PRE-FORECLOSURE REVIEW

a. Prior to loan termination, VA conducts a pre-foreclosure review of the loan to ensure that the borrower(s) have received every opportunity to retain homeownership or avoid foreclosure. When a Foreclosure Sale Date Scheduled event is reported by a servicer, the VA Electronic Reporting Interface (VALERI) will open a Pre-Foreclosure Review process for review by the VA-assigned technician. VA loan technicians have the ability to manually open a pre-foreclosure review process if they have been notified of a pending foreclosure sale.

b. During VA’s review, if it is determined the loan is soluble, the assigned technician will proceed with taking action for possible loss mitigation or alternative actions. Refer to Chapter 5, Loss Mitigation, of this handbook for additional information on loss mitigation options.

8.04 NOTICE OF VALUE AND EXTENSIONS

a. At least 30 days prior to the scheduled or anticipated date of the foreclosure sale, the servicer must request that VA assign an appraiser to conduct a liquidation appraisal. If the property is vacant, the servicer must provide the appraiser access to the property. The Construction and Valuation (C&V) section at the Regional Loan Center (RLC) of jurisdiction where the property is located may reach out to the VA-assigned technician for assistance in contacting the servicer for access to vacant properties. If state laws prevent the servicer’s ability to provide access to a vacant property, the appraiser must contact the C&V section of the RLC in the jurisdiction where the property is located for approval to conduct an exterior-only report. An interior appraisal will no longer be required in cases where the property was originally scheduled for foreclosure and a subsequent compromise sale offer is made. The exterior-only liquidation appraisal will be sufficient to complete the Compromise Sale without any further delays. The only exception to this rule is if the purchaser is a Veteran or surviving spouse. The liquidation appraisal is valid for 180 calendar days from the date of issuance, however, the C&V section may specify a shorter validity period if rapidly-changing market conditions exist in the area. Failure to order the appraisal timely, or a delay in providing the appraiser access to a vacant property, may delay the completion of the foreclosure sale.

b. If the servicer has a Servicer Appraisal Processing Program (SAPP) authority to process liquidation appraisals under 38 CFR 36.4348, the appraiser will forward the liquidation appraisal report directly to the servicer for determination of fair market value. If the servicer does not participate in SAPP, the appraiser will forward the liquidation appraisal report to the RLC of jurisdiction, for determination of fair market value. If the servicer learns of any material damage to the property after the appraisal has been completed, but prior to the foreclosure sale, the servicer must contact the C&V section of the RLC of jurisdiction for specific guidance.

c. If the Notice of Value (NOV) will expire prior to the foreclosure sale date, the servicer may request an extension of the NOV by contacting the VA-assigned technician. A Servicing Officer or Loan Administration Officer will generally grant a 14-day extension in VALERI, as long as the following conditions apply:
1. The request is received prior to the NOV expiration date.

2. The NOV extension request is received before the foreclosure sale.

3. The current occupancy status of the property and explanation as to why the extension is necessary has been provided.

4. No known extenuating circumstances exist that may diminish the value of the property.

d. Any requests that fall outside of these general requirements will be reviewed by VA on a case-by-case basis. If VA denies the servicer’s request to extend the validity period of the NOV, the servicer must order a new VA appraisal.

e. The servicer will compute and determine the bid type and amount by taking the fair market value of the property, minus estimated costs incurred by VA in acquiring and disposing of the property. The number to be subtracted from the fair market value will be calculated by multiplying the fair market value by the current Net Value cost factor. The Net Value cost factor is published by VA in the Federal Register per 36 CFR 36.4301. Current and past rates for the Net Value cost factor can be viewed at: http://www.benefits.va.gov/HOMELOANS/servicers_valeri.asp.

f. The servicer is required to follow VA requirements and comply with all federal, state, county and local foreclosure laws when scheduling and carrying out a foreclosure sale. Once the foreclosure sale is complete, the servicer must report the Results of Sale event in VALERI. This event will terminate all loans that are in a “guaranty issued” status except those that are located in a confirmation/ratification state. Refer to Appendix G, State Foreclosure Process and Statutory Bid Information, in this handbook.

g. VA also requires servicers to report the type of foreclosure, either judicial or non-judicial, in VALERI. The type of foreclosure is defined by state and county law and is required to determine what fees are allowable at time of the claim.

8.05 PRE-FORECLOSURE DEBT WAIVER (38 CFR 36.4326 (e))

a. A pre-foreclosure debt waiver is a complete release of VA’s right to collect a debt from the obligor, but does not restore the Veteran’s entitlement. VA reviews all type 2 loans or any assumed type 6 loans for potential waiver of debt. The following explains the difference between a type 2 and type 6 loan:

1. **Loan Type 2.** If the security for the loan is a manufactured home and the loan was processed under the provisions of Title 38 U.S.C., Section 3712, or if the security for the loan is not a manufactured home and the loan closed prior to January 1, 1990.

2. **Loan Type 6.** If the security for the loan is not a manufactured home and the loan closed on or after January 1, 1990.
b. A waiver of the debt may be warranted in instances where the borrower’s financial ability would prohibit them from repaying any debt established within a 6-year period.

c. VA may deny a pre-foreclosure debt waiver in cases of fraud, misrepresentation, or bad faith.

1. Fraud and/or willful misrepresentation may have occurred when the original lender obtained guaranty as a result of willful and material fraud or misrepresentation (e.g., borrower hiding unacceptable credit or submitting materially false information such as income, credit, or deposit verification).

2. Bad faith occurs when a borrower refuses to work with the servicer and VA to pursue a loss mitigation option and is in willful default. In addition, should VA discover there was an unauthorized transfer of ownership, or the borrower allowed the transfer of ownership to an unqualified party, these situations could be reviewed as possible reasons to establish a bad faith debt (e.g., borrower does not have a financial hardship; however, due to declining values on the VA-guaranteed property, the borrower purchased a new property within the same area, moved out, and willfully defaulted on the VA home loan that resulted in a termination).

8.06 FORECLOSURE BID AND LOAN TERMINATION (38 CFR 36.4322)

a. The servicer calculates the bid amount using the total eligible indebtedness (TEI). For more information on how TEI is calculated, refer to Chapter 14, Claims, of this handbook.

b. There are two bid types the servicer may determine:

1. **Total debt.** The VA net value is greater than or equal to the reported TEI.

2. **Net value.** The VA net value is less than TEI.

c. If the net value of the home is $0.00 or less, the servicer should not bid more than the unguaranteed portion of the loan indebtedness at the foreclosure sale unless there are competitive bidders and the servicer wants to acquire the property.

8.07 AUCTION SERVICE FOR THE TERMINATION OF VA LOANS

a. VA authorizes servicers to use an auction service in localities where available to legally complete the termination of a VA-guaranteed loan through an auction sale as opposed to a traditional foreclosure sale. The servicer must comply with VA regulations and determine the likelihood of increased sale proceeds. VA cannot recommend or advise which auction service to use. However, mortgage holders are accountable for the “selected auction service’s” failures to follow all state and local laws in addition to errors invalidating an auction sale.
1. The results of the auction must be equal to or higher than Net Value, as VA will only apply proceeds of sale equal to or greater than Net Value to the guaranty claim. All properties will be sold “AS IS”. VA does not provide financing for properties sold by foreclosure sale or auction.

2. The terms or conditions of an agreement to sell the property via an auction sale are between the servicer and the auction service. VA does not maintain a direct relationship with auction services nor does VA directly reimburse auction fees.

b. Guidance to Servicers.

1. Priority of Review. VA expects servicers to exert all reasonable efforts to assist Veteran borrowers in retaining ownership of their homes or mitigating losses when retention is not possible. If the servicer has exhausted all loss mitigation efforts and determines the loan insoluble, they may use the traditional method of foreclosure or an auction service to terminate the loan.

2. Appraisal. Mortgage servicers must obtain a VA appraisal to determine the “Net Value.” At least 30 days prior to an auction sale, the holder must request that VA assign an appraiser to conduct a liquidation appraisal to establish fair market value. The “Net Value Factor” is applied to the fair market value to determine a Net Value bid.

3. Marketing. In order for auction expenses to be eligible for reimbursement on a VA claim, properties selected for an auction sale will be marketed for a minimum of 15 days prior to the scheduled sale and sold for an amount equal to, or greater than, the “Net Value Bid.” Mortgage servicers must ensure they employ a non-affiliated auction service to market properties to the greatest number of potential bidders possible. Auction services may use all marketing tools available including advertisement through television, radio, newspaper, and the internet to expose properties to potential buyers in multiple geographic regions. Marketing of the property should be designed to alert the largest number of potential buyers and provide those potential buyers a means to participate in the auction process. A mortgage servicer that employs an auction service meeting all VA auction marketing requirements will be eligible for reimbursement of auction fees on a successful sale without the actual calling or crying the sale.

4. Servicer Reporting Sale Results to VA. Servicers will continue to report bid results to VA through the VALERI system. Servicers will report the amount of the highest bidder to VA on the “Results of Sale” event in the VALERI application. The credit to indebtedness must equal or exceed the Net Value of the property securing the loan.

5. Servicer Claiming Fees Related to Termination Through an Auction Service. VA reimburses servicers that utilize auction services and does not reimburse the actual auction service entity. When a property is successfully sold at auction, VA will reimburse an “auction fee” up to 5 percent of the sales price at the time of claim submission. The “auction fee” will be reviewed by VA and considered payable up to the maximum guaranty amount of the loan. When submitting the claim under guaranty, the fee incurred must be included as a line item expense.
(a) When calculating the total eligible indebtedness (TEI) for a loan that will go through the auction process, the servicer must calculate the estimated auction fee using 5 percent of the Net Value bid, to be included in the TEI. Failure to include the estimated auction fee with regular liquidation expenses could result in a Total Debt bid. VA does not pay a claim under guaranty for Total Debt bids on properties not conveyed to VA. If an outstanding auction fee results from a Total Debt bid, the auction service must seek reimbursement from the mortgage servicer.

(b) VA will not pay an “auction fee” for homes offered at an auction sale, but not actually sold to a third party. If a property is conveyed to VA in error after a completed auction sale, the property will be reconveyed to the mortgage servicer and any acquisition paid, plus the costs associated with accepting and maintaining property in the VA REO portfolio, will be collected from the mortgage servicer.

6. VA foreclosure timeframes will not be extended to accommodate an auction sale. Mortgage servicers are expected to terminate insoluble loans in accordance with Appendix G: State Foreclosure Process and Statutory Bid Information, and not increase the liability of the Secretary when liquidation is the most prudent course of action. The decision whether to pursue a second auction sale or to proceed with a traditional foreclosure to terminate a loan is not mandated by VA.
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### CHAPTER 9.  REFUNDS

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9.01 REFUND CONSIDERATION (38 CFR 36.4320)

a. Refunding is when the Department of Veterans Affairs (VA) elects to purchase a loan from the servicer and assume primary servicing responsibilities. This is VA’s final attempt to keep the borrower in their home. Refunds can be considered if VA determines it is in the best interest of the borrower and the government. The servicer or the VA-assigned technician may initiate the refund consideration process at any time during the life of the loan.

b. VA determines if the following conditions under 38 CFR 36.4320 have been met when reviewing a loan for refunding:

   1. All other efforts to cure the default have failed.

   2. The servicer is unwilling or unable to extend further forbearance.

   3. The Veteran wants to retain their home and occupy the property.

   4. The Veteran has overcome the reasons for default and regained the ability to resume monthly payments or will have that ability in the very near future.

   5. The Veteran had an acceptable credit history prior to default and is able to verify future income.

   6. The refund candidate is the title owner of the property.

   7. All current obligors agree to the modification.

   8. The net value of the property exceeds the unguaranteed portion of the loan.

   9. The Veteran is willing to accept modification of the loan making the loan non-transferable without prior approval of VA.

   10. The refunding of the loan will require the owner to sign a modification to the loan documents calling the loan due on sale.

   11. Requests for transfers of ownership (assumption) of refunded loans will be considered by the VA portfolio contractor on behalf of the Secretary.

   12. Other liens are willing to subordinate their loans.

   13. If the net value and maximum guaranty will not satisfy the servicer’s payoff, the servicer must agree to write off the difference prior to making a final recommendation. If the servicer will not write off the debt, the refund must be denied.
c. In rare circumstances, the VA-assigned technician may consider refunding a loan for a non-Veteran co-obligor if the case meets all VA refunding requirements and would be in the best interest of the Government.

d. When VA considers a refund, the servicer is responsible for providing VA the total eligible indebtedness (TEI), the borrowers’ monthly gross income, and the expected monthly escrow amount. Once the VA-assigned technician receives the required information, they will complete their preliminary review to determine the viability for refund consideration, and notify the servicer within 7-calendar days of VA’s decision. The refunded loan’s interest rate can be no more than three percent below the rate in effect for new loans at the time the refund is approved, but not lower than four percent per annum without approval of the Loan Administration Officer. VA’s preliminary decision will be communicated to the servicer and borrower.

e. If the technician determines to pursue further consideration, the technician will notify the servicer and request they suspend all efforts to terminate the loan until VA’s final decision is rendered. Upon notification, the servicer is required to obtain a title search, order a VA interior appraisal, and provide required loan data to include all tax and insurance information, along with copies of the mortgage note and recorded deed of trust (DOT). NOTE - Servicers must confirm that all taxes and Home Owner Association (HOA) fees are current. The VA-assigned technician will notify the borrower of the determination and require they submit the following financial information to VA:

1. Proof of income.

f. Once all required documentation is received from the servicer and borrower, and the VA appraisal has been completed, VA will conduct an analysis and complete a refund decision process. The maximum amount VA will pay on a refund claim is the net value, plus the guaranty and appraisal costs. VA’s final refund decision will be communicated to both the servicer and the borrower.

### 9.02 REFUND APPROVAL

a. If the refund is approved, servicers are required to submit the basic claim event, with supporting documentation, in the VA Loan Electronic Reporting Interface (VALERI) no later than the settlement date provided in VA’s approval letter. If the servicer does not submit the basic claim event with documentation by the settlement date, VA will only reimburse for the unpaid principal balance (UPB), interest calculated on the UPB up to the settlement date, and one appraisal when the basic claim event is submitted. No supplemental or appeal claims are permitted on refunded loans.
b. In addition, original title documentation must be forwarded to the VA-assigned technician by the settlement date provided in VA’s approval letter. The following is considered acceptable title documentation:

1. Original mortgage or DOT, or a copy certified by a local authority, with all assignments and any subordination agreements.

2. Original mortgage note from origination endorsed to the Secretary of Veterans Affairs.

3. Original/Copy of mortgagee’s title insurance policy, naming the Secretary of Veterans Affairs as a co-insured, and an updated policy or endorsement naming the Secretary as insured as of the date of the recorded assignment.

4. Recorded assignment of the mortgage to the Secretary of Veterans Affairs.

c. Upon receipt of all title documentation, VA will submit the documents to the appropriate Loan Guaranty National Practice Group (NPG) for review. VA does not certify claim payment until the title has been approved by the NPG. If the title is not acceptable, VA may reassign the loan back to the servicer and deny refunding of the loan.
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## CHAPTER 10. PROPERTY ACQUISITIONS

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10.01 PROPERTY ACQUISITIONS (38 CFR 36.4323)

a. Servicers have the option to transfer custody of a property to the Department of Veterans Affairs (VA) after a loan is terminated through foreclosure or deed-in-lieu (DIL) of foreclosure. Successful submission of the Transfer of Custody (TOC) event does not mean VA has approved acceptance of the property. All transfers are conditional upon Loan Guaranty National Practice Group (NPG) approval of title. The TOC event must be submitted to VA within 15 days of loan termination. The transfer of custody occurs on the day the TOC event is reported in the VA Loan Electronic Reporting Interface (VALERI). If the TOC event is not reported within the allowable 15-day timeframe, VALERI will reject the event and the servicer may submit an appeal for VA consideration. Refer to Chapter 16 of this handbook for more information on appeals.

b. If all VA regulatory requirements are met at the time the TOC event is submitted, VALERI will automatically generate an acquisition payment for review and approval by VA.

10.02 ELIGIBILITY TO TRANSFER CUSTODY

a. Prior to initiating a TOC event, servicers must determine eligibility to transfer custody. A servicer may initiate a TOC event when all of the following conditions are met:

1. The loan was terminated through a foreclosure or DIL.

2. If the net value of the property is less than the unguaranteed portion of the indebtedness (i.e., the total eligible indebtedness, minus VA’s maximum claim payable under the guaranty), the servicer must write off all indebtedness not covered by the maximum claim payable, the acquisition payment, and required to send a deficiency waiver notice to the borrower once the claim is paid. If a bankruptcy discharge has previously been obtained on the loan, a notice of deficiency waiver is not required.

3. The servicer did not rent the property to a new tenant, or extend the term of an existing tenancy, on other than a month-to-month basis during an after-sale redemption period.

4. The title of the property is or will be acceptable to prudent lending institutions, informed buyers, title companies, and attorneys, generally, in the community in which the property is located.

5. There has been no breach of any conditions affording a right to the exercise of any reverter.

6. If a partial release of security was granted on the property, there was full compliance with the requirements for partial releases of security as described in 38 CFR 36.4827.

10.03 TRANSFER OF CUSTODY EVENT REPORTING

a. If the servicer chooses to transfer custody of the property, they must report the TOC event to VA within 15 days of loan termination. Loan termination is defined as:
Chapter 10: Property Acquisitions

1. **Foreclosure.** The date of legal termination as defined under state law.

2. **DIL.** The date the deed is recorded or the date the deed is sent for recordation.

   b. When a loan is terminated in a confirmation/ratification state, the servicer must provide the date of confirmation/ratification in the TOC event. The servicer is also responsible for providing all insurance and property tax information, including all taxing authority property identification numbers. It is important to note that the holder of the loan must pay any taxes, special assessments, or ground rents due within 30 days after the date of transfer of custody to VA.

   c. In states that require a confirmation of sale, there could be lengthy delays between the foreclosure sale and confirmation. In such cases, if the servicer plans to convey the property to VA, VA may require the servicer to order a new VA appraisal at the servicer’s expense and provide a copy of the most recent property inspection completed.

   d. Each TOC submitted in VALERI is evaluated against VA regulatory requirements. VALERI rejects the TOC event if any of the following conditions apply:

      1. The loan is not guaranteed.

      2. The loan is not terminated (i.e., the servicer did not report the appropriate event that identifies a loan termination in VALERI).

      3. The successful bidder specified on the results of sale event was “third party.”

      4. The servicer reports the TOC event 16 or more days from the date of loan termination.

   e. Servicers can review the rejected TOC events on the Servicer Events Report Log Report.

10.04 **ACCEPTANCE OF PROPERTIES**

   a. Conveyance of properties to the Secretary of Veterans Affairs is addressed in Title 38, CFR, section 36.4323, titled “Election to Convey Security.” The regulation provides that the conveyance is subject to a number of provisions, particularly that the holder will convey the title to the Secretary of Veterans Affairs via a special warranty deed and must provide evidence to the Secretary of acceptability of title (which need not be provided if transfer is via a general warranty deed). Thus, the fact that VALERI accepts an event to report the notice of election to convey, does not mean the Secretary has actually accepted conveyance of the property until the other provisions of 38 CFR 36.4323 are satisfied.

   b. **Additional State Transfer Requirements.** In some states, both the grantor (seller) and the grantee (buyer) are required to execute a transfer deed. Additionally, some states require execution of other documents by the grantor and/or the grantee. Sometimes these documents must accompany the transfer deed when it is submitted for recordation. Some documents are
required to establish status and value for future real estate taxes, while others may relate to potential taxable income from the sale of real estate. VA will sign such documents when they are clearly in conformance with their stated purposes (e.g., to establish real estate tax value). However, VA’s signature does not deem acceptance of a property. Furthermore, when there are questionable items shown, such as a report that a deed to VA is a DIL of foreclosure, although such a deed should be to the loan holder, with a subsequent transfer deed to the Secretary of Veterans Affairs, then VA may seek clarification from the appropriate NPG prior to execution of the document. The following are examples of uncommon document requirements:

1. **Kentucky.** VA is required to sign a special warranty deed to reflect acceptance of the deed transfer to comply with state recordation requirements.

2. **California.** Per California Government Code, Section 27281, VA is required to sign a certificate of acceptance to transfer the property to a political corporation or governmental agency for public purposes. Conveyances to VA are actually made to the Secretary of Veterans Affairs as an officer of the United States, as part of a salvage operation under the Home Loan Guaranty program. Therefore, such properties do not fit this section of the California Government Code, which requires either a resolution of acceptance on the part of the political corporation, or else a certificate of acceptance substantially in the form provided in the code. Accordingly, such a certificate is not necessary. However, if a local jurisdiction demands such a form in order to record a deed involving the Secretary, then authorized VA officials will sign a certificate to include the qualifying language: “is accepted if the grantee determines the property meets the requirements of part 36 of Title 38, Code of Federal Regulations. The grantee consents to the recordation thereof by its duly authorized officer. Nothing herein waives the grantee’s authority to determine that the property is not acceptable pursuant to 38 CFR 36.4323.”

c. **Delegated Signature Authority.** Under 38 CFR 36.4345, “Delegation of Authority,” employees filling certain positions are authorized to sign documents related to real estate transfers on behalf of the Secretary of Veterans Affairs. Designated positions include Loan Guaranty Officers and Assistant Loan Guaranty Officers, who are authorized to sign documents for properties nationwide. Any time a VA employee signs a document on behalf of the Secretary, the document should include a signature block that cites the delegation of authority. Above the line for the signature should be something similar to the following “(Name of employee, position) on behalf of the Secretary of Veterans Affairs, an Officer of the United States, pursuant to the delegation of authority at 38 CFR 36.4345, but subject to the limitations of 38 CFR 36.4323.” This signature will describe the authority of the individual signing the document, and also serve as notice that whatever the document may state, VA retains its right to determine acceptability of the title to the property and to reconvey if the title is not acceptable.

d. **VA Address.** For any documents requiring an address for VA, use:

   Department of Veterans Affairs  
   Loan Guaranty Service  
   3401 West End Avenue, Suite 760W  
   Nashville, TN 37203
10.05 ACQUISITION PAYMENT CALCULATION

a. VALERI determines the acquisition payment for a loan terminated through a foreclosure sale or DIL of foreclosure based on the net value and the servicer reported total eligible indebtedness.

b. The net value is calculated by multiplying the VA Net Value cost factor times the “As is” value from the Notice of Value (NOV) issued in WebLGY. The Net Value cost factor represents the cost VA incurs from acquiring and disposing of properties. The Net Value cost factor is published by VA in the Federal Register per 36 CFR 36.4301. Current and past rates for the Net Value cost factor can be viewed on the VALERI Internet site located at: http://www.benefits.va.gov/HOMELOANS/servicers_valeri.asp.

c. For example, if a servicer forecloses on a property with an NOV “As is” value of $100,000 and the VA Net Value cost factor is 15.95 percent, VALERI calculates the net value as follows:

   1. NOV “As is” Value = $100,000.

   2. Application of VA cost factor (15.95 percent x $100,000) = $15,950.

   3. Net value ($100,000 minus $15,950) = $84,050.

d. The net value calculated by VALERI is compared to the amount reported by the servicer in the Results of Sale or DIL Complete event. If there is a discrepancy, VALERI uses its calculation of net value to determine the acquisition payment. There are two types of acquisition payments the servicer may receive:

   1. Total debt. If the net value is greater than or equal to the reported total eligible indebtedness, the acquisition payment is the unpaid principal balance (UPB) as reported in the most recent Delinquency Status Update.

   2. Net value. If the net value is less than total eligible indebtedness, the acquisition payment is the net value amount.

10.06 ACQUISITION NOTIFICATION

a. The determination of the acquisition payment is posted on the Servicer Web Portal (SWP). For information such as the acquisition amount, certification date, bid type, and disbursement status, servicers may view the Acquisition Payment Status Report. Servicers may contact the VA-assigned technician to research an acquisition payment if the funds are not received within 14 days after the Financial Management System issued a payment transaction number.

b. If an acquisition payment is denied, servicers have 30 days from the denial to exercise the option to appeal a decision. For more information on appeals, refer to Chapter 16 of this handbook.
10.07 SUBMISSION OF INSURANCE POLICIES AND TITLE DOCUMENTS (38 CFR 36.4323)

a. The servicer must submit all required documents to VA’s property management contractor within 60 days of loan termination in most jurisdictions. In some cases, due to redemption periods, confirmation hearings after sales, and/or delays in recorders’ offices, other timeframes after the sale may apply. A list of required title documents, property management contact information, and allowable timeframes can be located at: http://www.benefits.va.gov/HOMELOANS/servicers_valeri.asp?expandable=0&subexpandable=4.

b. The title policy documentation must insure the Secretary of Veterans Affairs in an amount equal to the consideration for the property. Consideration amounts are defined as the acquisition payment made to the servicer at time of the TOC. VA pays the consideration as net value or the UPB on total debt cases.

c. If title is not approved, VA’s Contract Assurance – Property Management section notifies the servicer and the VA-assigned technician. Custody of the property is returned to the servicer with no option to reconvey to VA, and a bill of collection is issued to recover acquisition funds and any other additional costs.
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11.01 RECONVEYANCE OF PROPERTY

a. VA reconveys a property to the servicer for the following reasons:

1. Invalid sale.
2. Improper transfer of custody (TOC).
3. Title problems.

b. Reconveyance of the property back to the servicer commences after the servicer reports an improper TOC or Invalid Sale event or after VA determines the need to reconvey the property. Once the improper TOC or Invalid Sale event is processed in the VA Loan Electronic Reporting Interface (VALERI), a bill of collection (BOC) is initiated to recover the acquisition and/or other additional costs. The servicer can review all notices on the Bill of Collections Status and Offsets report in the reports application of VALERI. The report includes the date VA reconveyed the property and the reason for the return.

c. Invalid Sale. An invalid sale occurs when any of the following exist:

1. Invalid sale results due to bankruptcy.
2. Procedural errors by the court, attorney, and/or servicer (including title problems, missing publication, and litigation).
3. Contested foreclosure.
4. Third-party fails to consummate.
5. The borrower is protected under the Servicemembers Civil Relief Act (SCRA).

d. Improper TOC. An improper TOC occurs when any of the following exist and the servicer has no option to reconvey in the future:

1. A third-party was the successful bidder and the servicer transferred custody to VA in error.
2. The servicer has chosen to retain the property and transferred custody to VA in error.
3. VA Loan Guaranty National Practice Group (NPG) reviewed and determined the servicer failed to provide clear and marketable title.
4. Servicer failed to provide all required title documents to VA within the required timeframes.
e. If reconveyance is necessary, the servicer must report the invalid sale or improper TOC event in the Servicer Web Portal (SWP) and VALERI will automatically initiate a BOC Process for VA review.

7. Title Problems. When VA reconveys a property to the servicer due to title issues, VA’s Contract Assurance – Property Management (CA-PM) unit is the point of contact and notifies the servicer by letter with the reason(s) for the return. CA-PM also notifies the appropriate Regional Loan Center (RLC) of the reconveyance. The VA-assigned technician, or designated technician at the RLC, will contact the servicer to advise them to submit the improper TOC event so the BOC can be established. If the servicer does not report an invalid sale or improper TOC event timely, the VA office will submit the event to begin the process of transferring the property back to the servicer.

f. If the servicer discovers an invalid sale or improper TOC after reporting the TOC event, they should not report the invalid sale or improper TOC event until VA has certified the acquisition payment. The servicer should notify the VA-assigned technician when they are made aware of the situation.

11.02 PREPARATION/EXECUTION OF QUITCLAIM DEEDS

a. When a servicer elects to convey a property to VA following loan termination, the servicer typically records a deed to the property in VA’s name. If the servicer does not provide title evidence timely or if it is deemed unacceptable by VA’s NPG, VA’s property management contractor handles the preparation of a quitclaim deed to transfer the title of the property back to the servicer. For state title submission due dates, please refer to the Title Documentation, Insurance and Timeframe requirements located at: http://www.benefits.va.gov/HOMELOANS/servicers_valeri.asp.

b. It may also be necessary to record a quitclaim deed back to the servicer in circumstances where VA did not acquire the property, an invalid sale was held, or a third-party was the successful bidder and the servicer recorded the deed to VA in error. If a property was conveyed in error, the servicer must prepare a quitclaim deed for VA’s execution to remove VA from title. The servicer should forward the quitclaim deed documents to the VA-assigned technician. If the loan is unassigned in VALERI, the quitclaim documents should be forwarded to the Loan Administration Officer at the VA RLC of jurisdiction where the property is located. Contact information for each RLC is located at: http://www.benefits.va.gov/HOMELOANS/servicers_valeri.asp. Refer to Chapter 12, Quitclaim Deeds, of this handbook for additional guidance.

11.03 RECONVEYANCE DISPUTES

a. Servicers can notify VA’s property management contractor of any concerns pertaining to the reconveyance of an asset due to untimely or unacceptable title. The dispute must be emailed to the designated contact at VA’s property management contractor via email at title-va-reconveyance@vrmco.com and must be received directly
from the servicer (not the foreclosure attorney). The email submission must include the following information:

1. Email Subject Line: reconveyance dispute,

2. Title package due date,

3. Copy of pre-reconveyance or incomplete letter,

4. Copy of final reconveyance letter,

5. Proof of compliance in resolving any/all noted deficiencies by the due date in either the pre-reconveyance or incomplete letter, and

6. Reason for dispute.

b. Reconveyance disputes must be submitted within 10-business days of receipt of the final reconveyance letter. Through the property management contractor, VA will respond to disputes within 72 hours of receipt.
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### CHAPTER 12. QUITCLAIM DEEDS

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12.01 QUITCLAIM DEEDS

a. When a servicer elects to convey a property to VA following loan termination, the holder typically records a deed to the property in VA’s name. VA pays an acquisition amount for the property after the transfer of custody (TOC) event is submitted, reviewed, and certified in the VA Loan Electronic Reporting Interface (VALERI). Servicers must provide acceptable evidence of title to VA per the Title Documentation, Insurance, and Timeframe Requirements link at: http://www.benefits.va.gov/HOMELOANS/servicers_valeri.asp.

b. If the servicer does not provide an acceptable title timely, or if the title is deemed unacceptable based on the authority delegated in (38 CFR 36.4345 (f)), VA’s property management contractor prepares a quitclaim deed (QCD) to transfer the title of the property back to the servicer. If an extension is necessary for a servicer to provide an acceptable evidence of title, an extension request must be received by VA’s property management contractor via email prior to the date title documents are due. All QCD inquiries regarding title reconveyance and execution of said document should be directed to VA’s property management contractor at the link above.

c. The following examples reflect situations where a servicer erroneously records a deed transferring title of the property to VA:

1. A third-party was the successful bidder at a foreclosure sale and the servicer deeded the property to VA instead of the third-party bidder.

2. VA denies conveyance of the property, but the servicer previously executed a deed in VA’s name.

3. A foreclosure sale was not valid, however a deed to VA was prepared in advance and recorded.

4. There may also be cases where deeds were recorded to VA on properties securing Federal Housing Administration (FHA) loans.

12.02 REQUESTING A QUITCLAIM DEED

a. Whenever a servicer or its agent determines that a QCD is needed to transfer any interest previously conveyed to VA, the request will be sent via e-mail to the VA-assigned technician or the Loan Administration Officer at the Regional Loan Center (RLC) of jurisdiction for the property location, if no technician is assigned. The e-mail must explain the reason for the request and include an electronic version of the QCD to be executed by VA, along with instructions for transmittal of the executed deed to the party that will handle recordation. The effective date of the QCD must be the same date as the initial transfer of the property to VA. By using the same date as the initial transfer to VA, the QCD essentially demonstrates that VA never accepted title to the property,
despite the previously recorded deed. In addition, nominal consideration should be shown in the QCD, along with a statement that the property was conveyed in error.

12.03 EXECUTING A QUITCLAIM DEED

a. Execution of the QCD ensures the property is transferred from the VA’s name to the correct holder of the property. Under (38 CFR 36.4345(b)), the Loan Guaranty Officer (LGO) or the assistant LGO has the authority to execute deeds in any area on behalf of the Secretary of Veterans Affairs. Timely submission and execution of the QCD will avoid delays in the servicer’s ability to respond to liens, code violations, taxes, etc. that may have been assessed on the property and remove VA’s name promptly from the title.

b. In some cases, there may be a delay or no request from the servicer for a QCD when conveyances are not accepted or the QCD to VA may have been erroneously recorded without any notice to VA. VA’s first notice may be in the form of a tax bill or a code violation from local authorities. In such cases, after determining that VA should not be the owner of a property, VA will ensure that contact is initiated with the servicer to prepare a QCD for VA’s execution.
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13.01 INDEMNIFIED LOAN AGREEMENTS

a. An indemnification agreement (IA) may be established when it is determined egregious underwriting was conducted by the originating lender. Audit reviews are performed by VACO Quality Assurance or the Loan Production (LP) section at the Regional Loan Center (RLC) of jurisdiction when completing a full review. The IA is prepared by VACO for specified loans or subsequent VA interest rate reduction refinancing loans that go into default, as defined in 38 CFR 3601, within 5 years of the date of guaranty to establish reimbursement for any loss incurred.

b. Any servicer who accepts transfer of servicing rights on the loan will be allowed to transfer property and convey a title to VA and receive a claim payment. VA will pursue the originating lender for reimbursement of losses incurred as a result of the termination action. If the servicer of the loan is the originating lender, VA will not accept custody or pay a claim under guaranty.

13.02 INDEMNIFICATION REQUIREMENTS

a. Indemnification shall be made in accordance with the following terms:

1. Where, as of the date of signing of an IA, a claim under guaranty has not been submitted to VA, the property will not be conveyed to VA and no claim under guaranty shall be submitted by the original lender. All VA requirements for servicing and payment of loan fees will be observed in respect to such mortgage. In the event of a claim under guaranty from a transferee of a mortgage covered by this agreement, indemnification will be in accordance with paragraph (b) or (c), whichever applies.

2. Where a VA guaranty claim is pending, or has been paid in full and the property is owned by VA, reconveyance of the property will be accepted by the servicer and indemnification will be made to VA for its investment. VA's investment includes, but is not limited to: the amount VA paid to the servicer when the servicer conveyed the property to VA; the full amount of the guaranty claim; all taxes and assessments; all maintenance and operating expenses, including costs of rehabilitation and preservation of the property; and all sales expenses, where applicable. In the event VA does not reconvey the property to the servicer, VA's loss will be calculated in accordance with paragraph (c).

3. Where a VA guaranty claim has been paid in full and the property has been sold by VA to a third party, the amount of indemnification is VA's investment as defined in paragraph (b), minus the sales price of the property.

b. In the event that VA determines that reimbursement is due from the servicer under the terms of the agreement, VA will submit a request to the servicer via certified mail. The servicer must remit funds to VA within 30 days from the date of the letter. If full payment is not received timely, the servicer will also be liable for interest on any unpaid balance from the date of the letter until the date the payment is received by VA. The
interest rate is determined by the Secretary of the Treasury pursuant to section 11 of the Debt Collection Act of 1982 (31 U.S.C. § 3717) representing the current value of funds rate used in assessing interest on debts due to the United States.

c. Any material breach of the terms and conditions of the agreement shall constitute independent grounds for imposing administrative sanctions by VACO against the servicer pursuant to 38 C.F.R. Parts 2 and 36.
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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 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 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, fees are 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.

14.07 OTHER REVIEW CONSIDERATIONS ON CLAIM PAYMENT

a. RI. 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, 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.

14.12 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.
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15.01 POST AUDIT

a. The post audit process protects the interests of both the Veteran and the Government. The primary objectives of the post audit are to confirm the appropriateness of payments, account for regulatory infractions, and to make adjustments, as necessary. The Department of Veterans Affairs (VA) conducts monthly post-audit reviews on the following types of cases:

1. Repayment Plan. A repayment plan is eligible for post audit 30 days from the date the incentive payment is confirmed by VA’s Financial Management System (FMS).

2. Special Forbearance. A special forbearance is eligible for post audit 30 days from the date the incentive payment is confirmed by FMS.

3. Loan Modification. Loan modifications are eligible for post audit 90 days from the date the incentive payment is confirmed by FMS. Loan modifications for which VA did not pay an incentive are eligible for post audit 90 days from the date the Default Cured Loan Reinstated event processes.

4. Deed-in-Lieu of Foreclosure (DIL). A DIL is eligible for post audit 60 days from the date the claim payment is confirmed by FMS.

5. Compromise Sale. A compromise sale is eligible for post audit 60 days from the date the claim payment is confirmed by FMS.

6. Foreclosure. A foreclosed loan is eligible for post audit 60 days from the date the claim payment is confirmed by FMS.

7. Partial Release of Security. A partial release of security is eligible for post audit 60 days after the VA Loan Electronic Reporting Interface (VALERI) receives the Partial Release of Security event.

15.02 VALERI SELECTION, NOTIFICATION, AND ASSIGNMENT OF CASES

a. On a bi-monthly basis, VALERI selects a random sample of eligible cases for post-audit review. When necessary, VA Central Office (VACO) may identify an additional pool of cases for post-audit review.

b. VALERI automatically assigns and distributes cases nationwide to technicians for review. VALERI does not distribute a post-audit case to the same technician who was originally assigned the loan.

c. Once cases are selected, servicers are notified of the selected cases on the Post Audit Selection Report on the first and fifteenth day of each month.
15.03 REQUIRED DOCUMENTATION (38 CFR 36.4324(d)(5))

a. Servicers are required to retain records for 3 years and provide supporting documentation on cases selected for post audit within 30 days. VA does not routinely give servicers additional time to submit documents without detailed justification to support a servicer’s extension request. If the servicer uploads a document after day 30, but before the VA-assigned technician concluded their review, the document will be used to complete the post audit. If the servicer did not submit the required document, but the information can be clearly and unquestionably verified by an alternative source, it is acceptable to use another document to validate the field.

b. A deficiency waiver letter is required to be sent to the borrower no later than 15-calendar days after receipt of the guaranty claim payment on all loans where VA paid a maximum guaranty claim and the property was conveyed to VA. NOTE: VA does not require a copy of the deficiency waiver letter if the borrower filed bankruptcy during the default period. The deficiency waiver letter must include the date and amount of the indebtedness that has been waived. In the event a servicer fails to provide evidence validating a deficiency waiver notice was sent covering all regulatory requirements, a regulatory infraction with no monetary value will be added during the post audit review. The absence of a deficiency waiver letter does not increase or decrease VA’s liability.

c. VALERI lists the supporting documentation servicers are required to submit in the Servicer Web Portal (SWP) under the Submit Documents link.

d. The following provides a definition for each post-audit document required:

1. **Foreclosure debt analysis.** The document used to calculate total debt to determine bid type at time of foreclosure.

2. **Appraisal for partial release of security.** A VA appraisal showing the reasonable value of the security before and after the partial release, as well as the value of the security being released.

3. **Appraiser's invoice.** Invoice from appraiser identifying the property that was appraised.

4. **Attorney's notice of procedural errors.** Document from an attorney explaining what procedural error caused either a delay in the foreclosure process or an invalid sale.

5. **Bill and evidence of payment.** An invoice outlining work completed.

6. **Compromise sale approval letter.** The servicer compromise sale approval letter that was sent to the borrower.

7. **Insurance proceeds check (copy).** A copy of the check issued by an insurance company to cover property damage.
8. **Deficiency waiver letter.** Notification from the holder to the borrower that they would be held harmless from the unguaranteed portion of the loan. Must include dollar amount being waived and the date the letter was sent.

9. **DIL approval letter.** The servicer DIL approval letter that was sent to the borrower.

10. **Evidence of the secondary lienholders (title or judgment).** A lien report, or other legal document, that shows any judgments or liens on a property.

11. **Evidence of third party's failure to consummate sale.** In the case of a successful third party bid, a document that shows the third party was unable to remit funds bid at sale to complete the transaction.

12. **Financial information.** All financial documentation that was used to approve the alternative to foreclosure such as income, expenses, and residual income.

13. **Foreclosure attorney referral notice.** Letter from the servicer to an attorney to authorize foreclosure proceedings.

14. **Closing Disclosure.** Document prepared by a closing agent describing a real estate transaction, including the escrow deposits for taxes, commissions, loan fees, points, and hazard insurance.

15. **Insurance adjuster's report.** An insurance adjuster's settlement recommendations for insurance claims or claims for damages. Copy of document(s) providing evidence that an insurance claim was filed. This evidence will also provide information on the approval or denial of the insurance claim.

16. **Itemized attorney invoice.** Invoice for any services provided by an attorney towards the termination of a loan.

17. **Itemized invoice for service provided related to property preservation and work completed.** Invoices for any and all services provided.

18. **Itemized invoice of work completed.** Invoices for services of all work completed and materials used (if applicable).

19. **Itemized invoice of work completed and materials used.** An invoice from a property preservation company or general contractor outlining materials and repairs completed to the property.

20. **Itemized invoice of work completed and waste management facility receipt.** Invoice from property preservation company, as well as receipt from dumping facility outlining debris removal, including the date, address of the property from which the debris was removed, number of yards dumped, and description of items being dumped or disposed.
21. **Ledger/loan payment history.** All ledger/payment histories from the first uncured default showing all debits/credits to the account, including refunds for tax and insurance. This includes running balances for principal, escrow, and suspense/unapplied accounts.

22. **Loan modification agreement.** The executed loan modification agreement between the servicer and the borrower that changed one or more terms of an existing mortgage loan such as the interest rate, number of years allowed for repayment, or amount of monthly payment.

23. **Loan modification approval letter.** The servicer’s loan modification approval letter that was sent to the borrower.

24. **Loan modification worksheet.** The worksheet used to process the loan modification showing the old and new terms of the loan.

25. **Loss mitigation analysis.** Documentation supporting the loss mitigation or alternative to foreclosure decision. This would include documentation showing the compromise sale or DIL completed was a cost savings to VA over foreclosure.

26. **Loss mitigation letter.** The servicer’s letter sent to borrower explaining loss mitigation options.

27. **Military documentation showing active duty status.** A copy of the mortgagor’s military orders, which include the date and duration of the active-duty status.

28. **Mortgage note.** The note, including variable mortgage addendums if applicable, is a written agreement between the borrower and servicer signed at closing to repay a loan. The note is secured by a mortgage, serves as proof of indebtedness, and states the manner in which it shall be paid. The note also states the actual amount of the debt secured by the mortgage and renders the mortgagor personally responsible for repayment.

29. **Foreclosure document (per state requirements).** Requirement document(s) providing results of sale.

30. **Official notice providing evidence of unusual property circumstance.** Documentation supporting an unusual property circumstance (i.e., demolition, methamphetamine lab, police seizure).

31. **Electronic bankruptcy docket report.** A Docket Report for each bankruptcy filed during the default period.

32. **Partial release of security instrument.** The legal document used for releasing a portion of the security.

33. **Payment return letter.** The servicer’s letter to the borrower explaining the reason for the returned payment.
34. **Property inspection verification.** A document that includes at minimum the following: date of the property inspection, cost of the inspection, and occupancy status.

35. **Public/official notice of contested foreclosure.** A document filed that shows the borrower has contested the foreclosure action.

36. **Public/official notice of postponed/cancelled foreclosure sale.** State required document showing a foreclosure sale has been either postponed or canceled.

37. **Public/official notice of scheduled foreclosure sale.** Document giving legal notice of the date, time, and place of sale.

38. **Purchase agreement.** The executed legal agreement detailing the sale of the property, including the price and terms of the sale.

39. **Recorded deed from the homeowner to servicer.** The recorded legal document that was used to transfer ownership from the borrower to the servicer on a DIL.

40. **Release of liability.** A formal agreement absolving a mortgagor from responsibility under a mortgage because another party has agreed to assume the mortgage obligation.

41. **Repayment plan agreement.** The written repayment plan agreement between the borrower and servicer.

42. **Servicing case notes.** All servicing case notes that can be generated from the servicer's operating system during the life of the current default. The servicing notes should include: collection notes, loss mitigation notes, bankruptcy notes, foreclosure notes, and tax/insurance notes, etc.

43. **Sheriff’s appraisal/notice of value (NOV).** A document that shows the "as-is" value of the property, which is used to determine the bid amount for a foreclosure sale or alternative to foreclosure.

44. **Title company invoice.** Invoices showing work completed, date completed, and amount due.

45. **Underwriting package.** All underwriting documentation that was used for the approval of the loan modification, such as the credit report, financial information, and hardship letter.

46. **Special forbearance agreement.** The written special forbearance agreement between the borrower and servicer.
15.04 POST-AUDIT RESULTS

a. Results of the post-audit review can be found on the Post Audit Detail Results Report. Regulatory infractions issued on the post audit may impact the servicer’s performance for tier ranking purposes. If the final results reveal an overpayment, VA will issue a bill of collection (BOC), which can be found on the BOC Status and Offsets report.

15.05 QUARTERLY POST-AUDIT REPORTS

a. Every quarter, VACO analyzes system-generated reports to identify patterns, trends, or common mistakes to determine if there are servicer specific issues. If the error trend continues on a regular basis, VACO may increase the number of cases selected for post audit. Servicer consequences of continued negative post-audit findings include:

1. Adversely affected tier ranking.
2. Mandatory training.
3. Full on-site audit.
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CHAPTER 16. APPEALS

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16.01 APPEALS

a. Servicers may submit an appeal when they disagree with a VA payment or event decision. All appeals must be submitted within 30 days from the date of VA’s decision. Servicers must provide supporting documentation and their justification at the time the appeal is submitted in the Servicer Web Portal (SWP). Servicers may not appeal a VA decision more than once. As a result, if there are multiple disallowed items on a claim payment, they must submit only one appeal inclusive of all items.

16.02 APPEALABLE ITEMS

a. Servicers may appeal the following:

1. Denied Incentives.

2. Claims.
   (a) Late Claim. Claims submitted beyond 365 days after termination.
   (b) Denied Claim. Where VA’s decision was to deny a claim (ex. deny a claim in a situation of an indemnification agreement and the servicer is the originating lender).
   (c) Paid Claim. Disallowed items or amounts, unpaid principal balance (UPB) proceeds of sale and days of interest.
   (d) Negative Claim. A claim is negative and generates a bill of collection (BOC).
   (e) Post-Audit Claim. When the servicer disagrees with VA’s findings on a post-audit claim.

3. Acquisitions.
   (a) Late Acquisition. When the transfer of custody (TOC) was not submitted within 15 days of termination (results of sale, confirmation of sale, or deed recorded).
   (b) Denied Acquisition. A TOC where VA denied acceptance of the property.
   (c) Paid Acquisition. When the servicer believes they were entitled to a different amount.

4. Regulatory Infractions. Regulatory infraction which VA imposed and the servicer believes to be invalid.

5. BOC. BOC imposed which the servicer believes to be invalid.
16.03 REVIEW OF THE APPEAL

a. VA carefully reviews and considers reimbursement over the listed maximum allowable on the claim, within reason. This is especially important for items where the servicer has no control, such as foreclosure facilitation/recording/filing fees or other items that may be established by local governmental or independent authorities. Appeals submitted without proper documentation will result in the denial of the appeal and the servicer may not submit another appeal.

b. VA allows interest for 210 days from the due date of the last paid installment, plus the maximum allowable state foreclosure timeframe. If delays occur which are beyond the control of the servicer, the servicer may submit an appeal for additional interest on the loan. Servicers are not allowed additional interest if the delay was due to an error by the servicer’s attorney or the servicer.

c. Items that cannot be paid above the regulatory maximum include attorney fees (foreclosure, deed-in-lieu, bankruptcy), property inspections, appraisal fees, and bankruptcy filing fee.

d. Appraisal updates, investigation fee related to service, special assessments, attorney fees for foreclosure restarts, and vacant property registration may be allowed at the time of appeal with proper documentation and justification submitted.

e. For final accounting/investor purposes, servicers may submit an appeal on loans where a claim may have reached the maximum guaranty payable. No payment may be issued; however, VA will carefully review and consider any item that may be approved as an allowable item. Servicers can view VA’s decision via the Appeal Status Report. The report provides information regarding the final decision, justification, and approved/disallowed amounts. Appeal decisions may be used by the servicer to obtain reimbursement funds from their investor.
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#### CHAPTER 17. BILL OF COLLECTION

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17.01 BILL OF COLLECTION

A bill of collection (BOC) is issued any time VA determines that a servicer should not have received all or part of a payment from VA. BOCs can be generated automatically by the VA Loan Electronic Reporting Interface (VALERI) or by VA. Once the BOC is certified, the servicer has 45 days to satisfy the debt. If the debt has not been satisfied timely, VA will offset future payments to the servicer until the amount of the BOC is recovered. Servicers can view the Bill of Collection Status and Offsets report for a detailed description of each debt established.

17.02 BILL OF COLLECTION TYPES

a. The following is a list of potential BOCs that may be issued on a loan:

1. Cancelled Guaranty. VA only makes payments on guaranteed loans. VALERI automatically opens a BOC process for review if a payment was made on a loan and the Web Enabled Loan Guaranty System (WebLGY) later notifies VALERI that the loan was not eligible for guaranty. This can happen as a result of an Inspector General review or a determination that either the Veteran or the property was ineligible for guaranty. The BOC is issued for the amount of any payments previously paid to the servicer on the loan.

2. Incentives. A BOC for an incentive payment may be issued if VA erroneously made a duplicate incentive payment for the same default or the Default Cured Loan Reinstate (DCLR) event is reported by the servicer in error.

3. Property Acquisition Overpayment. VALERI generates a BOC for a negative claim when the credit to indebtedness (proceeds of sale/acquisition payment) exceeds the total eligible indebtedness calculated by VALERI and the property is conveyed to VA.

4. Invalid Sale Identified after VA paid an Acquisition and/or Claim Payment. When an Invalid Sale event is reported by the servicer, a BOC will be generated to collect the acquisition amount, plus the property management assignment fee. The servicer may receive an additional BOC from VA’s Contract Assurance – Property Management (CA-PM) unit for any additional management expenses incurred while the property was in VA’s custody. All BOCs must be satisfied before VA will accept any future transfer of custody (TOC) on the loan. If VA previously paid a claim to the servicer, VALERI will issue a separate BOC for any claim payments.

5. Improper TOC Identified after VA Paid an Acquisition and/or Claim Payment. When an Improper TOC event is reported by the servicer or VA, VALERI calculates the BOC to include the acquisition amount, plus the property management assignment fee. The servicer may receive an additional BOC from VA’s CA-PM unit for additional management expenses incurred while the property was in VA’s custody. Although custody was returned to the servicer, the servicer may still be entitled to a claim payment. If the bid was a total debt bid, VA will issue a BOC to recover both the acquisition amount and all claim payments. If the bid was a net value bid and VA paid a claim, VALERI may include a separate BOC for any amount no longer payable to the
servicer. In some instances, the BOC may not be necessary on maximum guaranty claim payments.

6. **Post Audit.** A BOC may be issued on a post-audit review for the following reasons:

   (a) Failure to substantiate claimed items with the exception of the VA appraisal.

   (b) Failure to support home retention options with incentives paid.

   (c) Credits not previously reported on the claim, but substantiated by the ledger.

   (d) If VA’s liability was increased at time of claim due to an egregious loan modification identified by an early payment default review.

   (e) Regulatory infraction identified.

7. The servicer may appeal a BOC within 30 days of VA certifying the post-audit review. For more information on appeals, refer to Chapter 16 of this handbook.
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### CHAPTER 18. REGULATORY INFRACTIONS

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18.01 REGULATORY INFRACTIONS

a. Servicers are required to adhere to VA regulatory requirements. In certain circumstances, the servicer may need to obtain VA approval to deviate from a regulation. All pre-approval requests must be submitted to and approved by VA prior to servicers taking any action outside of VA regulation. Refer to Chapter 6 of this handbook for additional information on pre-approvals.

b. A regulatory infraction occurs when a servicer does not comply with VA regulatory requirement(s). Regulatory infractions are system generated or manually added by a VA technician anytime throughout the life of the loan, after termination, and when conducting a post audit. All regulatory infractions are reviewed by the VA-assigned technician to determine if a monetary adjustment is warranted prior to claim payment or post audit certification. VA records all approved regulatory infractions in the VA Loan Electronic Reporting Interface (VALERI) to gather information for servicer performance purposes.

18.02 REGULATORY INFRACTION DESCRIPTIONS

a. The following provides descriptions of system-identified and technician-identified infractions:

1. System-Added Infractions.

(a) Servicers must deliver to the Secretary all legal documents, including proper loan assignments, required as evidence of proper loan transfer within 60-calendar days of VA loan refund notice identified during the refund process, when the technician enters the date the title documents were received and the date is more than 60-calendar days after the refund approval date. 38 CFR 36.4320.

(b) Transfer of ownership on a delinquent loan. Identified when the servicer reports the Transfer of Ownership event on a loan where an Electronic Default Notice (EDN) was previously reported and the default has not cured. 38 CFR 36.4303.

(c) Release of liability on a delinquent loan. Identified when the servicer reports the Release of Liability event on a loan where an EDN was previously reported for the current default and the default has not cured. 38 CFR 36.4309.

(d) Failure to maintain adequate insurance. Identified when the servicer reports the Transfer of Custody event and the servicer reports that the expiration date of any of the current insurance policies is prior to the report date of the event. 38 CFR 36.4329.
2. Technician-Added Infractions.

(a) Late loss mitigation letter sent. Identified when VA determines that the servicer failed to send the loss mitigation letter within 45-calendar days of delinquency on early payment defaults or 75-calendar days of delinquency for non-early payment defaults. 38 CFR 36.4350(g)(1)(iv).

(b) Excessive late charges. Identified when VA determines that the amount of late charges the servicer reported on the EDN or delinquency status update (DSU) equals more than four percent of any installment paid more than 15 days after the due date. 38 CFR 36.4312(c).

(c) Failure to order an appraisal timely. Identified when the servicer reports the Transfer of Custody event and the servicer reports that the expiration date of any of the current insurance policies is prior to the report date of the event. 38 CFR 36.4322(b)(1).

(d) Improper partial release of security (LTV). Identified when VA determines the servicer completed a release for a portion of the property outside of the regulatory requirements without pre-approval from VA, which results in a negative impact on the security for a guaranteed loan. 38 CFR 36.4327.

(e) Improper return of partial payments. Identified any time VA determines the servicer returned a partial payment to the borrower in error. 38 CFR 36.4316.

(f) No contact attempted. Identified any time VA determines the servicer failed to attempt contact with the borrower. 38 CFR 36.4350(g).

(g) Failure to accept funds to reinstate. Identified when the servicer refuses to accept sufficient funds to bring the delinquency current at any time prior to termination unless accepting the funds would adversely affect the dignity of the lien or precluded by law. 38 CFR 36.4309(h).

(h) Failure to complete property inspections. Identified when a servicer fails to complete property inspections securing the loan when:

1) The condition of the property may be in jeopardy,

2) Before day 60 of delinquency, or before initiating action to liquidate a loan, whichever is earlier, OR

3) At least monthly once liquidation proceedings have started, unless servicing information shows the property remains owner occupied. Note: an infraction may not be warranted if the borrower is under an active repayment plan. CFR 36.4350(i).

(i) Loan terminated without appraisal. Identified when the servicer completed the termination of a loan without obtaining a fair market value from a VA appraisal. CFR 36.4322(b).

(j) Unauthorized transfer of ownership. Identified when the servicer reports the Transfer of
Ownership event on loans that originated on or after March 1, 1988, but they do not also report the Release of Liability event at the same time, or when VA discovers an unauthorized transfer of ownership. 38 CFR 36.4309.

(k) **Failure to send a loss mitigation letter.** Identified when VA determines the servicer failed to send the loss mitigation letter to the borrower during any delinquency of the loan. 38 CFR 36.4350(g)(1)(iv).

(l) **Improper modification.** Identified when a servicer reports a Loan Modification Complete event and the terms fail to comply with regulatory requirements unless the servicer received pre-approval. 38 CFR 36.4315.

(m) **Improper bid amount (incorrect calculation).** Identified when the servicer reports the Results of Sale (ROS) or Deed-in-Lieu Completed event and it is determined the servicer used incorrect calculations to complete the termination of the loan. 38 CFR 36.4322(c).

(n) **Events.** Identified when the servicer fails to report required events to VA throughout the life of the loan. 38 CFR 36.4303.

(o) **Technician Identified Other Infraction.** Identified when VA becomes aware the servicer has failed to comply with any other regulatory requirement not specified in VALERI. 38 CFR 36.4300 series.

3. **System-Added or Technician-Added Infractions.**

(a) **No supporting documentation.** Identified any time VA determines the servicer failed to substantiate information during the post-audit review, or any process where documentation is required. 38 CFR 36.4324(d)(5).

(b) **Late reporting.** Identified when a servicer reports an event electronically to VA after the event’s reporting timeframe expires (servicer-added), or when a servicer reports an event to VA via telephone call, email, fax, or letter after the event’s reporting timeframe expires and fails to report an adequate justification for the delay (technician-added). 38 CFR 36.4317.
## CHAPTER 19. TRAINING

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19.01 TRAINING NEEDS AND REQUIREMENTS

a. VA-guaranteed loans must be serviced in accordance with VA regulations and guidelines. VA offers servicer training based on national standard requirements and servicer specific needs. The Central Office Servicer Liaison (COSL) works with Regional Loan Centers and industry partners to determine training needs and requirements. The COSL may use the following factors to determine training needs:

1. Servicer performance evaluations that identify training needs. Depending on the severity of the training needs, VA may recommend or mandate training.

2. Post-audit results that require VA either to clarify its guidance to all servicers through training, or to mandate training for a specific servicer based on errors isolated to that servicer.

3. A request for training from a servicer or an industry group such as the Mortgage Bankers Association of America or USFN.

4. VA policy or regulatory changes that necessitate training.

19.02 NATIONAL TRAINING

a. VA offers national training sessions to address training needs and requirements that affect all servicers and to introduce program changes and improvements. VA may conduct these sessions via web-based applications or at a conference in a centralized location.

b. VA works with industry partners to plan and promote these sessions. Based on servicer training needs and requests, VA selects high-level topics that affect servicers and discusses new policies, regulations, and program changes.

19.03 SERVICER-SPECIFIC TRAINING

a. Servicers may request specialized training by contacting the COSL. VA may also recommend or mandate training based on post-audit results and servicer performance. VA can conduct training via web-based applications, satellite broadcasts, or in person at either a VA facility or the servicer’s facility. VA uses standard training materials and may adjust the materials to focus on specific needs.
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**CHAPTER 20. SERVICER PERFORMANCE**

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20.01 SERVICER PERFORMANCE (38 CFR 36.4318)

   a. VA monitors servicer performance to ensure compliance with VA requirements, determine training needs, and assess trends within the servicing community. An established VA ranking system will define, measure, and compensate servicers based on servicing activities. There are four tier levels, with tier one rated the highest and tier four the lowest. Currently, all servicers are ranked in tier two for incentive payment purposes and will remain in tier two until performance measures are in place.

   b. Goals of Tier Ranking:

      1. Reward servicer efforts to provide the best service possible to Veteran borrowers.

      2. Drive tighter collaboration between servicer partners and VA.

      3. Identify areas of competitive advantage/disadvantage for servicers to help inform decision making.

      4. Identify trends to assist VA with improvements to the VA Home Loan program.
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CHAPTER 21. DISASTERS

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21.01 DISASTERS

a. This chapter addresses Department of Veterans Affairs (VA) guaranteed home loans affected by a Federal Emergency Management Agency (FEMA) disaster such as flooding, tornado, storms, etc., including ecological or other human-made disasters, and provides guidance on what actions should be taken to assist the affected borrowers. Affected borrowers are considered those borrowers whose homes were damaged or destroyed, the families of those impacted, those who suffered considerable personal injury, those who provide assistance to impacted family members, and those whose work environments were destroyed, severely damaged or compromised as a result of the disaster. Servicers must check with FEMA to obtain the specific counties included in the federally-declared disaster area and corresponding declaration dates, along with any amendments to the declaration, at www.fema.gov/disasters. Any VA loan which closed prior to the date of the declared disaster is eligible for VA loss mitigation options. Please see Title 38, Code of Federal Regulations (CRF), section 36.4329 (Hazard Insurance), regarding insurance coverage for properties which may have been damaged or destroyed by the disaster.

21.02 BORROWER ASSISTANCE

a. VA encourages servicers of guaranteed loans to extend all available options to borrowers in distress as a result of a disaster. Responsible counseling with borrowers should help determine whether the delinquency is related to a disaster, or whether it stems from other sources that must be addressed. The proper use of authorities granted in VA regulations may be of assistance in appropriate cases. For example, 38 CFR 36.4311 (Prepayments), allows the reapplication of prepayments to cure or prevent a default. This means that if a borrower has made enough additional pre-payments, the pre-payments may be reversed, the principal balance increased up to the scheduled balance and then pre-payments may be re-applied as regular installments. Also, 38 CFR 36.4315 (loan modifications), allows the terms of any guaranteed loan to be modified without the prior approval of VA, provided certain conditions in the regulation are satisfied.

21.03 MORATORIUM ON FORBEARANCE

a. Although the loan servicer is ultimately responsible for determining when to initiate foreclosure and complete a termination action, VA requests that servicers establish a 90-day moratorium from the date of a disaster on initiating new referrals to foreclosure on affected loans. VA regulation 38 CFR 36.4324(a)(3)(ii) allows additional interest on a guaranty claim when termination has been delayed due to circumstances beyond the control of the servicer, such as VA-requested forbearance. The servicer should notify the VA assigned technician of forbearance due to a disaster so the technician can identify that loan in the VA Loan Electronic Reporting Interface (VALERI) to ensure interest is adjusted accordingly. Any questions about impact should be discussed with the VA-assigned technician.
21.04 VA DISASTER LOAN MODIFICATION

a. The VA Disaster Loan Modification allows servicers to extend permanent payment relief to impacted delinquent borrowers when the borrower has not submitted a complete loss mitigation application. All impacted borrowers should have an opportunity to be considered for a VA Disaster Loan Modification as long as eligibility requirements are met.

b. Evaluation of Borrower - Servicer evaluation of the borrower’s financial information is not required. Pre-approval is automatically granted for 38 CFR 36.4315(a)(3) requiring borrower’s creditworthiness to be evaluated under the criteria specified in 38 CFR 36.4340.

c. If eligible for the VA Disaster Loan Modification program, borrowers must successfully complete a 3-month Trial Payment Plan (TPP) period, and sign the VA Disaster Loan Modification Agreement in order to receive a permanent loan modification.

d. Servicers are encouraged to continue VA Disaster Loan Modification solicitation efforts throughout the delinquency and the foreclosure process, up to 12 months after the federally-declared disaster.

21.05 ELIGIBILITY FOR VA DISASTER LOAN MODIFICATION. Following forbearance relief, servicers may offer a VA Disaster Loan Modification to delinquent borrowers impacted by a disaster, subject to the following conditions:

a. The mortgage loan is a VA-guaranteed first lien mortgage loan.

b. The borrower has been impacted by a federally-declared disaster.

c. The mortgage loan was no more than 30 days past due at the time of the disaster.

d. The mortgage loan is at least 60 days delinquent after the disaster forbearance period has ended. Servicers may offer a disaster modification to a borrower prior to the expiration of the forbearance period if clear evidence exists that the borrower is ready to resume monthly installments.

e. The servicer must follow 38 CFR 36.4315 with respect to amounts included in the modified indebtedness, interest rate adjustment, and term extensions.

f. The borrower has not submitted a complete loss mitigation package or is not performing under a loss mitigation option at the time of consideration for a VA Disaster Loan Modification.
g. The borrower must complete a TPP.

h. The servicer may not offer a TPP in connection with the VA Disaster Loan Modification more than 12 months after the federally-declared disaster event.

i. Servicers have discretion to consider other eligibility exclusion criteria including but not limited to: loans in active bankruptcy, mediation or litigation, upon advice of servicer’s counsel.

21.06 TRIAL PAYMENT PLAN (TPP)

a. A 3-month TPP period is required to demonstrate the ability to make the modified monthly mortgage payment. VA encourages the servicer to provide the written TPP offer within 15-calendar days of the date the servicer determines the borrower to be eligible. If the servicer sends the TPP on or before the 15th day of a calendar month, the servicer must use the first day of the following month as the first trial plan payment due date. If the servicer sends the TPP after the 15th day of a calendar month, the servicer must use the first day of the successive month following the next month as the first trial plan payment due date. To accept the offer, the borrower can notify the servicer verbally or make the first trial plan payment. The servicer must provide the borrower foreclosure protection, by placing any foreclosure proceedings on hold, upon receipt of the first trial plan payment. The borrower must make each of the three scheduled trial payments by the last day of the month in which the payment is due.

21.07 FINAL VA DISASTER LOAN MODIFICATION AGREEMENT

a. After successfully completing the TPP, the servicer will provide the borrower with the VA Disaster Loan Modification Agreement. The servicer must prepare the agreement early enough in the trial period to allow sufficient processing time so that the modification becomes effective on the first day of the month following the final trial period month.

b. In the event the borrower does not make the final trial period payment on or before the due date set forth in the TPP (but does make the final trial period payment before the end of the month in which it is due), the servicer may complete the VA Disaster Loan Modification Agreement making it effective on the first day of the second month following the final trial period month. In this scenario, the borrower will not be required to make an additional trial period payment during the (interim) month in-between the final trial period month and the month in which the modification becomes effective.

c. The borrower must sign and return the VA Disaster Loan Modification Agreement. The borrower must agree to set up an escrow account for taxes, hazard, and flood insurance prior to the beginning of the TPP, if one does not currently exist.
21.08 SERVICER INCENTIVES

a. Standard incentives for a completed loan modification will apply.

21.09 LATE CHARGE WAIVERS

a. VA believes that many servicers waive late charges on loans in a disaster area, and encourages all servicers to adopt such a policy for any loans that may have been affected due to the ripple effect of the disaster.

21.10 CREDIT AND VA REPORTING

a. VA urges servicers to consider suspension of credit reporting on Veteran borrowers who have been affected by a disaster to avoid damaging credit records.

b. VA will not penalize servicers for any late default reporting as a result of the disaster. This may include direct damage to servicer facilities located in the disaster area or their operations which have been impacted by business partners within the disaster areas.

21.11 EXCEPTIONS

a. The below conditions do not apply to the VA Disaster Loan Modification:

1. Fewer than 12 months of payments have been made since the mortgage loan was originated.

2. The mortgage loan was previously modified in the past 3 years; or the mortgage loan was previously modified 3 or more times, regardless of the modification program or dates of the prior modifications.

3. The borrower previously defaulted on a prior Streamline Loan Modification TPP or a Streamline Loan Modification.

b. The servicer may seek pre-approval from VA prior to completion of the VA Disaster Loan Modification for any issues that are outside of the policy guidance provided in this chapter.
### APPENDIX A. ACRONYMS

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<td>ALT</td>
<td>Assistant Loan Technician</td>
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<td>ARM</td>
<td>Adjustable Rate Mortgage</td>
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<td>BOC</td>
<td>Bill of Collection</td>
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<tr>
<td>CA</td>
<td>Contract Assurance (Formerly Portfolio Loan Oversight Unit (PLOU) and Property Management Oversight Unit (PMOU))</td>
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<tr>
<td>C&amp;V</td>
<td>Construction and Valuation</td>
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<tr>
<td>CFR</td>
<td>Code of Federal Regulations</td>
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<td>CO</td>
<td>Central Office</td>
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<td>COSL</td>
<td>Central Office Servicer Liaison</td>
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<tr>
<td>CPTS</td>
<td>Centralized Property Tracking System</td>
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<tr>
<td>DIL</td>
<td>Deed-in-Lieu</td>
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<td>EDN</td>
<td>Electronic Default Notification</td>
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<td>EPD</td>
<td>Early Payment Default</td>
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<td>FEMA</td>
<td>Federal Emergency Management Agency</td>
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<td>FMS</td>
<td>Financial Management System</td>
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<td>GEM</td>
<td>Growing Equity Mortgage</td>
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<td>GNMA</td>
<td>Government National Mortgage Association (Ginnie Mae)</td>
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<td>GPM</td>
<td>Graduated Payment Mortgage</td>
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<td>HUD</td>
<td>Department of Housing and Urban Development</td>
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<td>LA</td>
<td>Loan Administration</td>
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<td>LAO</td>
<td>Loan Administration Officer</td>
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<tr>
<td>LAPP</td>
<td>Lender Appraisal Processing Program</td>
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Appendix A: Acronyms

v. LGC  Loan Guaranty Certificate
w. LIN  Loan Identification Number
x. LP   Loan Production
y. LT   Loan Technician
z. LTV  Loan to Value
aa. MU  Monitoring Unit
bb. NOV Notice of Value
cc. OIG  Office of the Inspector General
dd. OJ  Office of Jurisdiction
ee. OO  Office of Origin
ff. P&I  Principal and Interest
gg. PACER  Public Access to Court Records (Report)
hh. PM  Property Management
ii. RESPA  Real Estate Settlement Procedures Act
jj. RLC  Regional Loan Center
kk. RO  Regional Office
ll. ROL  Release of Liability
mm. SAPP  Servicer Appraisal Processing Program
nn. SAR  Staff Appraisal Reviewer
oo. SCRA  Servicemembers Civil Relief Act
pp. SLT  Senior Loan Technician
qq. SO  Servicing Officer
rr. T&I  Taxes and Interest
ss. TVLB  Texas Veteran’s Land Board

tt. UPB  Unpaid Principal Balance

uu. USC  United States Code

vv. VA  Department of Veterans Affairs

ww. VACO  VA Central Office

xx. VALERI  VA Loan Electronic Reporting Interface

yy. VBA  Veterans Benefits Administration

zz. WebLGY  Web-enabled Loan Guaranty System
APPENDIX B. Glossary

a. **4600 Repurchase.** A loan VA sells to a private lender under the terms of 38 CFR 36.4600. Under this regulation, VA will repurchase this loan if the loan is six full installments or more in default.

b. **Abandonment.** The release of right to a property with the intention of terminating ownership and without giving it to anyone else. A property status indicating the property is vacant, is not being maintained, and is not offered for sale or rent.

c. **Accrued Unpaid Interest.** The interest earned for the period of time that has elapsed since interest was last paid.

d. **Adequacy of Servicing Review.** When a VA-technician reviews the servicer’s attempts to avoid foreclosure on a loan at the 120th day of delinquency and periodically throughout the default until the loan terminates, cures, or is paid-in-full.

e. **Adjustable-Rate Mortgage.** A mortgage that permits the holder to adjust its interest rate periodically on the basis of movement in a specified index.

f. **Advance.** 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.

g. **Alternative to Foreclosure.** Loss mitigation options considered by the servicer to avoid foreclosure, after deeming home retention options are not feasible. Alternatives to foreclosure include, compromise sales and deeds-in-lieu of foreclosure.

h. **Amortization.** Gradual reduction of the mortgage debt through periodic payments scheduled over the mortgage term.

i. **Appeal.** A request made by the servicer to have a case reviewed again when they disagree with a VA decision.

j. **Automatic Lender.** A VA designation that allows eligible lenders to conduct the processing and closing of loan applications without VA’s prior review. See VA Lender Handbook for more information.

k. **Basis Point.** One hundredth of a percentage point. For example, 50 basis points equal one half percent.

l. **Bill of Collection (BOC).** A bill set up by VA to recover funds from a servicer.

m. **Borrower Contact.** Contact made by a VA Loan Technician with a borrower, or representative of the borrower, regarding a VA-guaranteed home loan.
n. **Central Office Servicer Liaison.** The servicer’s point of contact for general program, administrative, and training questions.

o. **Claim Payment.** The payment of advances, expenses and any interest due to a servicer once a VA-guaranteed loan has terminated.

p. **Compromise Sale.** An alternative to foreclosure that allows borrowers to settle the mortgage debt by selling their home even though the sale proceeds are less than the total indebtedness.

q. **Confirmation of Sale.** A hearing in which the court confirms the foreclosure sale unless valid objections are raised.

r. **Consent Judgment Foreclosure.** This involves the court entering a judgment of foreclosure, satisfying the mortgage debt, by vesting title of the property to the servicer, free and clear of all claims and liens (except liens of the United States). The borrower signs a stipulation consenting to the judgment and waives his or her rights to reinstatement/redemption and the servicer agrees to waive all rights to a deficiency judgment. Consent judgments are applicable when there are subordinate liens against the property that would make a DIL unacceptable.

s. **Construction and Valuation (C&V).** Loan Guaranty section responsible for valuing property and issuing Notices of Value.

t. **Conveyance.** The written instrument by which title to real property is transferred from one party to another.

u. **Deed-in-Lieu (DIL).** An alternative to foreclosure where the borrower voluntarily transfers the property to the holder for a release of all obligations under the mortgage.

v. **Default.** When the borrower fails to make a mortgage payment or comply with the terms of the original loan documents signed at closing.

w. **Default Resolution Rate.** Measures to gauge the effectiveness of joint efforts by loan servicers and VA to help Veterans with delinquent loans receive the most advantageous resolution option.

x. **Delinquency.** The failure to make a mortgage payment (or payments) when due. Delinquency occurs when all or part of the borrower's monthly installment of principal, interest and, where applicable, escrow is unpaid after the due date.

y. **Delinquency Letter.** Notice required by VA that is sent to the borrower by the servicer no later than the 30th day of delinquency. The letter informs the borrower of the seriousness of the delinquency and the amount due.
z. **Department of Housing and Urban Development (HUD).** A cabinet-level agency of the Government that is responsible for the implementation and administration of housing and urban development programs.

aa. **Department of Veterans Affairs.** A cabinet-level agency of the U.S. Government that is in charge of administering various Veterans programs. One program is the guarantee of residential mortgage loans made by lending institutions to qualified Veterans of the United States armed forces or their surviving spouses.

bb. **Early Payment Default.** A situation where the borrower defaults on a loan within 6 months of loan origination or modification.

c. **Electronic Default Notification (EDN).** The notice containing specified loan data that servicers are required to report electronically to VA once the loan becomes 61 days delinquent.

dd. **Escrow.** Escrow includes all funds collected to cover expenses to be paid under the mortgage including, but not limited to, taxes, special assessments, ground rents, and other charges that are or may become first liens on the mortgaged premises, as well as property insurance premiums and mortgage insurance premiums. Amounts held by a mortgagee (or mortgagee's agent) which belong to the mortgagor, but are collected to ensure future payment of items such as property taxes and insurance.

ee. **Event.** A significant action or decision made by the servicer. Servicers report most events through their service bureau or manually via the Servicer Web Portal. On an exception basis, servicers report events by telephone call, email, fax, or letter.

ff. **Expense.** Fees incurred by the servicer to complete the termination of a mortgage loan. Expenses include, but are not limited to, attorney fees (including bankruptcy), property inspections, filing fees and court costs.

gg. **Fair Credit Reporting Act.** The law that sets forth legal standards governing the collection, use, and communication of credit data and certain other information about consumers.

hh. **Fair Market Value.** The price established for the current value of the property.

ii. **Funding Fee.** A fee collected at closing assessed by VA to originate or assume a loan made after January 1, 1990. This fee will vary depending upon the type of VA loan and whether this is the first use of VA entitlement. VA does not require disabled Veterans or surviving spouses of Veterans who died in service or from a service-connected disability to pay a funding fee.

jj. **Government National Mortgage Association (Ginnie Mae).** A wholly owned United States government corporation within the HUD. Ginnie Mae was created to support a secondary market in Government-insured and guaranteed mortgage loans, and guarantees
the timely payment of principal and interest on its securities. The full faith and credit of the United States guarantee these payments.

kk. **Hazard Insurance.** Provides eligible compensation to the insured or the lien holder (mortgagee) for physical damage by fire, wind, or other natural disasters, to the property.

ll. **Home Retention Options.** Loss mitigation options that enable borrowers to retain homeownership. Home retention options include repayment plan, special forbearance, and loan modification.

mm. **Incentives.** Payments to servicers for successfully completed loss mitigation options.

nn. **Indemnification Agreement.** An agreement established with originating lenders following a VA Quality Assurance audit that determines egregious underwriting procedures.

oo. **Insoluble.** The determination that a default cannot be cured. This determination should only be made after the servicer has exhausted all reasonable efforts to cure the default.

pp. **Insurable Loss.** Property damages that result in an insurance claim being filed by the borrower or servicer.

qq. **Invalid Sale.** A foreclosure sale deemed as not legally valid based upon local law.

rr. **Judicial Foreclosure.** Foreclosure through court action rather than by a power of sale.

ss. **Lien.** A legal hold or claim of one person on the property of another as security for a debt or charge.

tt. **Loan Administration.** Loan Guaranty section responsible for monitoring the servicing of VA loans and intervening, as needed.

uu. **Loan Identification Number.** The twelve-digit VA loan number that identifies the VA office of origin, jurisdiction, loan type, and the individual loan number.

vv. **Loan Modification.** A permanent change in one or more of the terms of a loan and typically includes re-amortization of the balance due.

ww. **Loan Production (LP).** The Loan Guaranty section responsible for monitoring activities involved in VA home loan origination.

xx. **Loan Termination.** The date of the legal termination under foreclosure law, the date a DIL of foreclosure is recorded or sent to be recorded, repossession, or paid in full date.
yy. **Loss Mitigation Letter.** The letter that VA requires servicers to send that informs the borrower of the loss mitigation options available and the potential entitlement loss as a result of a foreclosure action.

zz. **Manufactured Housing.** Moveable dwelling units designed and constructed for year round occupancy by a single family, on land, containing permanent eating, cooking, sleeping, and sanitary facilities.

aaa. **Maximum Guaranty.** The obligation of VA to repay a specified percentage of a loan upon the default of the primary debtor. The guaranty means the lender is protected against loss if the Veteran or a subsequent borrower fails to repay the loan.

bbb. **Mortgage.** Pledge of real property as security for the repayment of a debt, or the document that creates and represents the lien upon the real property that secures the debt.

ccc. **Mortgage Loan.** Debt that is evidenced by a mortgage note, therefore it is secured by a mortgage.

ddd. **Mortgage Note.** The note is evidence of the debt that is secured by a mortgage.

eee. **Net Proceeds.** The sales price less the seller’s expenses.

fff. **Net Value.** The fair market value of property, minus the VA Net Value Cost Factor.

ggg. **Net Value Cost Factor.** A percentage that represents the estimated cost to VA of acquiring and disposing of the property.

hhh. **Net Value Bid.** The amount that servicers bid when the net value of the property is greater than the unguaranteed portion of the indebtedness, but less than the total indebtedness.

iii. **Non-Judicial Foreclosure.** The authority to terminate a loan through the power of sale.

jjj. **Offset.** The result of a servicer’s failure to satisfy a BOC. Future payments to the servicer will be reduced until the amount of the BOC is satisfied.

kkk. **Paid in Full.** A loan is paid in full when the loan obligation has been fully satisfied by receipt of funds and not a servicing transfer.

lll. **Partial Payments.** A remittance on a loan in default of any amount less than the full amount due under the loan terms in effect when the payment is tendered.

mmm. **Partial Release of Security.** When a portion of a secured property is released from the lien.
nnn. **Potential Claim Savings.** The projected savings to the government when a borrower avoided foreclosure by successfully completing a loss mitigation option.

ooo. **Post Audit.** VA review of the supporting documentation for selected cases.

ppp. **Prepayment.** The payment of all, or a portion of the mortgage debt, before it is due.

qqq. **Private Sale.** The sale of a property which covers the total amount owed on the loan.

rrr. **Property Preservation Expenses.** Expenses incurred by the servicer throughout a delinquency to protect and preserve a vacant property.

sss. **Quality Assurance.** Loan Guaranty section that performs RLC station and servicer audits.

ttt. **Real Estate Settlement Procedures Act (RESPA).** Federal law which regulates the settlement practices within the real estate industry. This law requires the provision of Good Faith Estimates of Closing Costs, prohibits kickbacks for referrals of related services, standardizes the closing with a required form and format, and mortgage servicing activities.

uuu. **Reconveyance.** The transfer of legal title and maintenance responsibility from VA back to the servicer.

vvv. **Redemption Period.** A period of time established by state law during in which a property owner has the right to redeem the property from a forced, public foreclosure sale.

www. **Refund.** VA option to purchase a loan in default from a servicer and take over the servicing by VA’s subcontractor.

xxx. **Regional Loan Center.** A Veteran’s Benefits Administration office that is a point of contact for Veteran borrowers and servicers on VA loans.

yyy. **Release of Liability.** A formal agreement absolving a borrower from responsibility under a mortgage because another party has agreed to assume the obligations.

zzz. **Repayment Plan Agreement.** A written agreement for reinstatement of the loan in which the borrower agrees to pay the normal monthly payment, plus a portion of the delinquency each month.

aaaa. **Servicer Appraisal Processing Program (SAPP).** A program that allows approved servicers to review VA liquidation appraisals and establish the fair market value of a property.
bbbb. **Servicer Contact.** Contact made by a VA Loan Technician with a loan servicer regarding a VA-guaranteed home loan.

cccc. **Servicer Web Portal (SWP).** A link within the VA Loan Electronic Reporting Interface (VALERI) application that enables servicers to report information to VA. The SWP is a primary means for servicers to communicate with VA.

dddd. **Servicing History.** Documented case notes including, but not limited to, contacts with the borrower, current servicing, collection, loss mitigation, and foreclosure actions performed by the servicer.

eeee. **Servicemembers Civil Relief Act (SCRA).** A Federal law that provides relief for Veteran-borrowers called to active military service on loan obligations incurred prior to their current period of service.

ffff. **Special Forbearance Agreement.** Special forbearance is a written agreement between the servicer and borrower where the servicer agrees to temporarily suspend or reduce payments for 1 or more months.

gggg. **Staff Appraisal Reviewer.** A servicer’s employee that is certified to review VA appraisals, determine the fair market value and issue a Notice of Value (NOV) on the property.

hhhh. **Substantial Equity.** A case with a fair market value greater than or equal to 1.2 times the total indebtedness.

iii. **Supplemental Claim.** A claim a servicer submits to account for expenses not included in the initial claim.

jjjj. **Tier Ranking.** VA’s four-tiered ranking system to evaluate servicer performance. A servicer’s tier ranking affects incentive payment amounts.

kkkk. **Total Debt Bid.** The amount a servicer bids if the net value of the property exceeds the total indebtedness.

llll. **Total Eligible Indebtedness (TEI).** TEI consists of the unpaid principal balance, allowable accrued interest, allowable liquidation advances, and expenses, less any credits.

mmmm. **Total Indebtedness.** The total amount of debt owed to the servicer by the borrower.

nnnn. **Texas Veteran’s Land Board Loan.** This is a “two note loan” which is underwritten as a co-first lien utilizing one deed of trust. This program is administered by the Veterans Housing Assistance program.
oooo. **TOC.** The acknowledgement by a servicer to transfer responsibility for a property from one party to another.

pppp. **Transfer of Ownership.** A transfer of ownership occurs when the title holder of a property changes. A transfer of ownership may not occur on a loan 61 or more days delinquent unless the transfer cures the delinquency.

qqqq. **Unauthorized Transfer of Ownership.** When a transfer of ownership is made on a loan originated on or after March 1, 1988, without the prior approval of VA or a VA automatic lender.

rrrr. **Unguaranteed Portion of Indebtedness.** The amount of the borrower’s debt not covered by the maximum claim payable under the guaranty.

ssss. **VALERI.** Loan Administration’s web-based system that supports VA employees and servicers in the oversight and servicing of guaranteed loans.

tttt. **VA Loan.** Residential mortgage loan made to Veteran borrowers under the VA Loan Guaranty program.

uuuu. **WebLGY.** The Web-enabled Loan Guaranty System utilized by VA LP and C&V to manage loan origination and liquidation data.

vvvv. **Write-Off.** An amount deducted from the indebtedness so that the net value is greater than the unguaranteed portion of the indebtedness.
APPENDIX C. STATE AND TERRITORY TAX DUE DATES

a. Alabama. Taxes are due October 1.

b. Alaska. Taxes are due June 15 and August 15. These dates are subject to change depending on when the Municipal Assembly sets the mill levy and tax bills are mailed out.

c. Arizona. Taxes are due semi-annually in October and March.

d. Arkansas. Taxes are paid from March to May for previous calendar year and delinquent after October 15. Special assessments are delinquent after April 18. Levy and drainage taxes are due in October for the current year.

e. California. Taxes are due semi-annually in November and April.

f. Colorado. If paid annually, taxes are due April 30 for the prior calendar year. If paid semi-annually, taxes are due February 28 and June 15 for the prior calendar year.

g. Connecticut (CT). Taxes are due January and July in general, but vary per township. Taxes are due according to local guidance. Check local CT guidance for tax due dates.

h. District of Columbia. Taxes are due semi-annually March 31 and September 15.

i. Delaware. Taxes are due September 30. The tax year is from May 1 to April 30.

j. Florida. Taxes are payable November 1. Tax bills are sent out on October 1 of each year and are discounted each month for early payment. Taxes must be paid by April 15.

k. Georgia. Taxes are due according to local guidance. Check local Georgia guidance for tax due dates.

l. Guam. Taxes are due February 20 and April 20.

m. Hawaii. Taxes are due semi-annually February 20 and August 20 for the next semi-annual period.

n. Idaho. If paid annually, taxes are due December 20 for current year. If paid semi-annually, taxes are due for the first half of current year on December 20 and second half of previous year on June 20.

o. Illinois. Taxes are due June 1 and September 1 for prior year taxes. There are counties in which taxes can be paid in four installments such as Rock Island. In Cook County, the taxes are due on March 1 and September 1.
p. **Indiana.** Taxes are due semi-annually May 10 and November 10. Taxes are paid in arrears.

q. **Iowa.** First tax payment due March 31 and covers January 1 through June 30 of the previous year. Second tax payment due September 30 and covers July 1 through December 31 of the previous year. Taxes are generally paid in March and September.

r. **Kansas.** First half of taxes are due on or before December 20. Second half of taxes are due on or before May 10 of the following year. Taxes are generally paid April and November.

s. **Kentucky.** Taxes are due December 31 for the current year.

t. **Louisiana.** Taxes are due December 31 for the current year. For Orleans Parish, taxes are due on or before December 31, but the payment is for next year’s taxes.

u. **Maine.** Taxes are due four times per year in July, October, January, and April.

v. **Maryland.** Taxes are due semi-annually September 30 and December 31.

w. **Massachusetts.** Taxes are due four times per year in August, November, February, and May.

x. **Michigan.** Taxes are due semi-annually in August and December.

y. **Minnesota.** Taxes are due semi-annually May 15 and October 15. Taxes are generally paid in May and October.

z. **Mississippi.** Taxes are due on or before February 1 for previous year. If February 1 falls on a weekend or legal holiday, taxes may be paid the following Monday without penalties or interest.

aa. **Missouri.** Taxes are due December 31 for current year taxes. Taxes are due and payable on the first day of November and delinquent on January 1.

bb. **Montana.** If paid annually, taxes are due November 30. If paid semi-annually, taxes are due the first half of the current year on November 30 and the second half of the previous year on May 31.

c. **Nebraska.** Taxes are due semi-annually March 31, which covers January 1 through June 30 of previous year, and July 31, which covers July 1 through December 31 of the previous year. Taxes are generally paid in March and July.

d. **Nevada.** Taxes are paid four times per year in August, October, January, and March.

e. **New Hampshire.** Taxes are due July 1, December 1, or 30 days after the bills are issued, whichever is later.

ff. **New Jersey.** Taxes are due four times per year in January, April, July, and October.
gg. New Mexico. Taxes are due semi-annually in November and April.

hh. New York (06). School taxes are due in September. County taxes are due in February. City taxes are due in July.

ii. New York (07). County taxes are due in February. City taxes are due semi-annually in July and December.

jj. North Carolina. Taxes are due according to local guidance. Check local North Carolina guidance for tax due dates.

kk. North Dakota. Taxes are due semi-annually March 15, which covers January 1 through June 30 of previous year and October 15, which covers July 1 through December 31 of the previous year. If the annual amount is paid by February 15, there is a 5 percent discount. Taxes are generally paid in March and October.

ll. Ohio. Taxes are due semi-annually in January, which covers January 1 through June 30 of previous year, and July, which covers July 31 through December 31 of previous year.

mm. Oklahoma. Taxes are due December 31 for the current year.

nn. Oregon. If paid annually, there is a 3 percent discount and taxes are due November 15. If paid in three payments, the taxes are due November 15, February 15, and May 15. If two-thirds of the taxes are paid by November 15, there is a 2-percent discount. Tax period starts July 1 of the current calendar year through June 30 of the next calendar year.

oo. Pennsylvania. Taxes are due April 30. If paid by March 31, a 2-percent discount is received. Taxes can be paid as far out as December 31 of the same year without a penalty.

pp. Puerto Rico. Taxes are due April 1 and October 1 for prior 6 month’s tax. Property tax bills are issued January 1 and July 1, and payment is due within 90 days. Payments made within 30 days are eligible for a 10-percent discount. Payments made between 31 to 60 days are eligible for 5-percent discount.

qq. Rhode Island. Taxes are due according to local guidance. Check local Rhode Island guidance for tax due dates.

rr. South Carolina. Taxes are due according to local guidance. Check local South Carolina guidance for tax due dates.

ss. South Dakota. Taxes are paid semi-annually on April 30, which covers January 1 through June 30 of previous year, and October 31, which covers July 1 through December 31 of the previous year. Taxes are generally paid in April and October.

tt. Tennessee. Taxes are due according to local guidance. Check local Tennessee guidance for
tax due dates.

uu. Texas. Taxes are due December 31.

vv. Utah. Taxes are due December 1.

ww. Vermont. Taxes are due according to local guidance. Check local Vermont guidance for tax due dates.

xx. Virginia. Taxes are due according to local guidance. Check local Virginia guidance for tax due dates.

yy. Washington. If paid annually, taxes are due April 30 for current calendar year. If paid semi-annually, taxes are due April 30 for the first half of the year and October 31 for the second half of the year.

zz. West Virginia. Taxes are paid semi-annually on September 1 and February 28.

aaa. Wisconsin. If paid annually, taxes are due on January 31 for prior year taxes. If paid semi-annually, taxes are due January 31 for the first half of the previous year and July 31 for the second half of the previous year. Taxes are generally paid in December.

bbb. Wyoming. If paid annually, taxes are due by December 31. If paid semi-annually, taxes are due November 10 for the first half of year and May 10 for the second half of the previous year.
a. The Homeowners Assistance program (HAP) authorizes the Department of Defense (DoD) to provide assistance to eligible military and civilian homeowners by reducing their losses in connection to the disposal of their homes when the military installation at which they were employed or serving is ordered to close in whole or in part. Under this Act, the Secretary of Defense is, among other things, authorized to acquire title to, hold, manage, and dispose of, or in lieu thereof, to reimburse eligible homeowners for certain losses sustained upon private sale of, or foreclosure (including the payment of debts incident to foreclosure) against, any property improved with a one- or two-family dwelling. DoD has the sole responsibility for determining the eligibility of homeowners under HAP.

b. VA’s Role in HAP. Under HAP, VA offers assistance to Veterans and DoD. VA has three primary responsibilities:

1. Establish initial contacts,

2. Report to VA Central Office, and

3. Determine whether the purchaser is “Satisfactory” under HAP.

c. Establish Initial Contacts. In the event that the DoD announces actions to consolidate, reduce, realign, or close military installations and activities, designated employees of Loan Guaranty:

1. Visit the installations.

2. Contact the commanding officers, appropriate staff officers, or civilian personnel officials.

3. Establish a proper liaison to assist those borrowers with VA-guaranteed loans that will either lose their jobs or will be transferred.

d. Loan Guaranty contacts the coordinating officer with the District Office of the U.S. Army Core of Engineers to make available the full cooperation of VA and to obtain information to assess the possible impact that the DoD-announced actions will have on the Loan Guaranty program.

e. Report to VA Central Office. Regional Loan Center (RLC) management sends an assessment of the probable impact the DoD actions will have on liquidations of security for guaranteed loans, as well as any resulting increase in property acquisitions and curtailment of the sale of VA-owned properties in the areas affected. For guaranteed loans, this report should generally include the following information:
1. Name of the installation and number of military and/or civilian employees affected by the announcement.

2. Names of the affected counties.

3. Estimated number of outstanding guaranteed loans in each affected community.

4. Number of claims and foreclosures that are likely to result from the closing or cutback.

5. Extent to which local economy can provide employment for displaced workers.

6. Extent to which the local real estate market is dependent on the installation.

7. General condition of the residential real estate market at this time and the short-and long-term outlook.

8. Present vacancy rate and the trend for owner-occupied housing units and rented-occupied housing units.

9. Description of the actions underway or being contemplated by the business community or state or local Government to minimize the impact on the community or assist those who have been displaced as a result of the closing or cutback.


f. Determine Whether the Purchaser is “Satisfactory” Under HAP. DoD asks VA to determine whether or not the purchasers of certain homes are “satisfactory” under section 1013(c), Public Law 89-754 (42 U.S.C. 3374(c)). Upon receipt of a request from DoD for a determination that a purchaser of a property securing a GI loan is satisfactory, VA determines that the current title holder (this may or may not be the original purchaser) has assumed personal liability to the mortgage holder for repayment of the debt by a clause in the deed of conveyance or otherwise, in accordance with applicable state laws. Purchasers are “satisfactory” under section 1013(c), Public Law 89-754 (42 U.S.C. 3374(c)), if:

1. The repayment terms of the loan bear a proper relation to present and anticipated income and expenses.

2. The purchaser is a satisfactory credit risk.

g. VA makes this determination based on employment verifications, financial information, and status of the related mortgage loan, debt verifications, and credit reports. The seller or the purchaser of the property pays the cost of the credit report. VA does not pay for the credit report.
h. Assistance to Veterans under HAP. Under HAP, the DoD may offer assistance to Veterans and other Federal employees in the following three ways:

1. Private sale,

2. Government purchase, and

3. Foreclosure or deed-in-lieu (DIL) of foreclosure.

j. Private Sale. For dwellings privately sold, DoD may compensate eligible applicants for the difference between 95 percent of the appraised fair market value (FMV) of the property prior to the announcement date, and the appraised FMV of property at the time of sale, or the sales price, whichever is greater. Closing costs are reimbursable for private sales. Payment of closing costs may be made to individuals who elect to sell their homes privately, but do not receive a cash payment under the private sale option. However, if the program implementation letter advises that applicants must suffer a loss to receive benefits, this loss must occur to receive reimbursement for closing costs for private sale benefits. Prior to or at the time the payment is made, the loan must be paid-in-full or assumed by a purchaser acceptable to VA. The Veteran’s application for such benefits should specify that he or she is applying for “reimbursement for loss on private sale.”

k. Government Purchase. An eligible applicant may elect to sell the property to the government and receive, as the purchase price, an amount not to exceed 75 percent of the FMV prior to the date of the announcement, or the current total amount of outstanding mortgages, whichever is greater. Mortgages refinanced after the announcement date are accepted if, at the time of government acquisition, the balance does not exceed what it was at the time of refinancing. Eligible applicants may also be reimbursed for mortgage interest, property insurance and taxes, from the date of receipt of the application, the date the dwelling is vacated, or the date of program approval, whichever is later through the date of acquisition.

l. Foreclosure or DIL of Foreclosure. If foreclosure proceedings have commenced, an applicant may elect to receive either foreclosure benefits or private sale benefits. DoD may pay foreclosure benefits directly to the applicant to reimburse for foreclosure costs paid by the applicant or paid to third parties on the applicant’s behalf. These costs may include direct costs of judicial foreclosure, expenses and enforceable liabilities according to the terms of the mortgage or promissory notes, and the amount of debts, if any, established against the applicant by a Federal agency for loans made, guaranteed, or insured by such agency following liquidation of the security for such loans. Any foreclosure entered into after the program approval date must have an enforceable liability in order for the applicant to receive benefits. DoD may pay benefits in order to restore VA eligibility. The obligor’s application for this benefit should specify that he or she is applying for “foreclosure relief.”

m. DoD considers conveyance of a residence by DIL of foreclosure a private sale. However, if an applicant is required to execute a promissory note as a condition precedent to acceptance of
When a DIL of foreclosure, and foreclosure proceedings have commenced, the applicant can elect between private sale and foreclosure benefits. DoD does not pay outstanding judgment liens, encumbrances of a personal nature, or junior mortgages acquired after the announcement date.

n. When the applicant signs a promissory note, DoD treats VA compromise sales as foreclosures for the purpose of paying benefits. The Veteran and VA agree to a sale of the property to another party at the current FMV, as determined by a VA appraisal. VA will pay off the mortgagee to eliminate the Veteran’s obligation to the mortgagee. A promissory note covers the difference between the sale price and the remaining obligation. The HAP benefit pays off this note. If VA waives payment of the promissory note, the applicant may elect to receive private sale benefits, but the amount of the debt waived is added to the sale price of the property.

o. When DoD accepts a conveyance and assumes the loan, but does not pay off the indebtedness on the loan, VA will remain liable as guarantor.
APPENDIX E.  TEXAS VETERANS LAND BOARD LOANS

a.  Background.  The Texas Veterans Land Board (TVLB) has administered a state benefit called the Veterans Housing Assistance program (VHAP) since its inception in 1983.  This program currently allows Texas Veterans to borrow a maximum of $325,000 to purchase property located only in Texas.  In cases when the Veteran needs more than this amount to purchase a home, a TVLB participating lender must lend the additional funds to the Veteran.  This is a “two-note loan,” which is underwritten as a co-first lien utilizing one deed of trust.  The TVLB note is called the program note, and the other note is called the participant note.  By combining a VHAP loan with another loan at the current market rate, the Veteran has a lower blended rate over the overall mortgage and a lower monthly payment.  For more information on the TVLB, visit www.glo.state.tx.us/vlb/general/index.html.

b.  Servicing.  VA guarantees Texas VHAP loans.  These loans are serviced the same as other loans in the VA Loan Electronic Reporting Interface (VALERI).  Although the loan is comprised of two notes, it is treated as one loan, and VALERI only allows information from one servicer as the primary contact.  The information on the loan in VALERI must match the information in WebLGY.  Otherwise, VALERI will not be able to locate the loan.  When either loan goes into default, the entire loan is considered in default.  The servicer must take both loans into account when pursuing loss mitigation options and when referring the loan to foreclosure.  The terms of the TVLB loans cannot be modified without the prior written approval of the TVLB.  This includes changes to the interest rate, maturity date, and monthly payment amount.  If the loan is being terminated through a compromise sale, deed-in-lieu, or foreclosure, both notes must be terminated at the same time and the servicer who is pursuing termination is responsible for working with the other servicer to ensure that both loans are terminated at the same time.  NOTE:  Prior to foreclosure, the servicer must report the combined Unpaid Principal Balance (UPB) in the Delinquency Status Update (DSU) event.  Additionally, the Results of Sale (ROS) event must include the Total Eligible Indebtedness (TEI) for both loans so the acquisition payment will be accurate.

c.  Claims Under Guaranty.  VA’s guaranty applies to both loans.  All TVLB loans will be non-routine and must be reviewed by a technician.  For two-note loans, it is possible that the interest rate or due date is different.  In the example below, the combined interest rate is 6.75 percent.  This is found by dividing the combined total amount of interest by the combined principal balance.  The interest rate and amount allowed on the claim must be adjusted to match the combined interest rate.  Since VALERI contains the name of only one payee (holder) for each loan, only one claim payment can be disbursed.

d.  Example.
<table>
<thead>
<tr>
<th>Interest Rate Percent</th>
<th>Principal Balance</th>
<th>Amount of Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.5</td>
<td>$10,000</td>
<td>$750</td>
</tr>
<tr>
<td>6.0</td>
<td>$10,000</td>
<td>$600</td>
</tr>
<tr>
<td>Total</td>
<td>$20,000</td>
<td>$1,350</td>
</tr>
</tbody>
</table>
### APPENDIX F. ADDITIONAL VA CONTACT INFORMATION

a. Regional Loan Center Offices of Jurisdiction. The Regional Loan Center (RLC) Offices of Jurisdiction (OJ) are identified by the first two numbers of the loan identification number (LIN) for each loan. For a complete list of the OJ codes and the associated state name, refer to the valid OJ VA Technician Manual M26-3 codes Excel spreadsheet, at: [http://www.benefits.va.gov/HOMELOANS/servicers_valeri.asp](http://www.benefits.va.gov/HOMELOANS/servicers_valeri.asp). Questions on current loans should be directed to the RLC identified by the OJ number on the LIN. Questions regarding delinquent loans should be directed to the technician assigned to the loan. OJ numbers and contact information for the nine RLCs are listed in the table below.

<table>
<thead>
<tr>
<th>Station ID #</th>
<th>OJ #</th>
<th>Office</th>
<th>Address</th>
<th>Telephone Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>314</td>
<td>11, 13, 14, 27, 72</td>
<td>Roanoke RLC</td>
<td>210 Franklin Road, SW Roanoke, VA 24011</td>
<td>1-800-933-5499</td>
</tr>
<tr>
<td>316</td>
<td>16, 18, 19, 20</td>
<td>Atlanta RLC</td>
<td>1700 Clairmont Road Decatur, GA 30033</td>
<td>1-888-768-2132</td>
</tr>
<tr>
<td>317</td>
<td>17, 22, 23, 55</td>
<td>St. Petersburg RLC</td>
<td>9500 Bay Pines Boulevard St. Petersburg, FL 33708</td>
<td>1-888-611-5916</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Mailing Address: P.O. Box 1437</td>
<td></td>
</tr>
<tr>
<td>325</td>
<td>06, 07, 09, 10, 11, 25, 26, 29, 73</td>
<td>Cleveland RLC</td>
<td>A.J. Celebreeze Federal Building 1240 East 9th Street Cleveland, OH 44199</td>
<td>1-800-729-5772</td>
</tr>
<tr>
<td>335</td>
<td>28, 30, 31, 33, 34, 35, 52</td>
<td>St. Paul RLC</td>
<td>1 Federal Drive, Fort Snelling St. Paul, MN 55111</td>
<td>1-800-827-0611</td>
</tr>
<tr>
<td>339</td>
<td>39, 36, 41, 42, 46, 47, 48, 63</td>
<td>Denver RLC</td>
<td>155 Van Gordon Street Lakewood, CO 80228</td>
<td>1-800-319-9446</td>
</tr>
<tr>
<td>Area Code</td>
<td>Numbers</td>
<td>Location</td>
<td>Address</td>
<td>Phone Number</td>
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<tr>
<td>-----------</td>
<td>---------</td>
<td>-------------------</td>
<td>----------------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>345</td>
<td>40, 43, 44, 45, 77</td>
<td>Phoenix RLC</td>
<td>3333 North Central Avenue Phoenix, AZ 85012</td>
<td>1-888-869-0194</td>
</tr>
<tr>
<td>362</td>
<td>21, 49, 50, 51, 62</td>
<td>Houston RLC</td>
<td>6900 Almeda Road Houston, TX 77030</td>
<td>1-888-232-2571</td>
</tr>
<tr>
<td>459</td>
<td>59</td>
<td>Honolulu RLC</td>
<td>TAMC Ward Road E-Wing, 1st Floor Honolulu, HI 96819</td>
<td>1-808-433-0486</td>
</tr>
</tbody>
</table>
## APPENDIX G. STATE FORECLOSURE PROCESS AND STATUTORY BID INFORMATION

### a. STATE FORECLOSURE PROCESS

<table>
<thead>
<tr>
<th>State</th>
<th>Procedure (Type of Foreclosure Proceeding)</th>
<th>Final Event (Loan Termination Event)</th>
<th>Confirmation or Ratification of Sale State?</th>
<th>Significant Event Update that Defines Loan Termination Date</th>
<th>Data Element that Provides Loan Termination Date</th>
<th>Max. Allowable Foreclosure Timeframe excluding 210 effective to 1/3/16</th>
<th>Max. Allowable Foreclosure Timeframe including 210 effective 1/4/16**</th>
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**Federal Register Notice chart includes 210 days plus foreclosure timeframes for interest days calculated.
b. **STATUTORY BID REQUIREMENTS**

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APPENDIX H. PROPERTY PRESERVATION REQUIREMENTS AND FEES

a. Inspection Requirements. In accordance with Title 38, Code of Federal Regulations (CFR), Section 36.4350(i), loan servicers are responsible for inspecting the property securing a VA-guaranteed loan immediately after becoming aware that its physical condition may be in jeopardy. Unless a loss mitigation option is in place, a property inspection is also required before day 60 of delinquency or before commencing liquidation action, whichever is earlier, and at least monthly after liquidation proceedings have been started, except when it has been determined that the property is owner-occupied.

b. Inspections During Liquidation. VA regulations do not specifically require monthly inspections after the start of liquidation proceedings when the security property is owner-occupied. However, because of the potential for abandonment of the property during the liquidation proceedings, and the fact that other servicing activities may not result in direct contact with the borrower during this period and may not readily lead to discovery of abandonment, VA believes regular monthly inspections should be conducted during this time. Therefore, VA will allow regular inspections during liquidation proceedings to be included in the eligible indebtedness for claim computation purposes, even when the inspections confirm that the property remains owner-occupied.

c. Vacant or Abandoned. When a servicer receives notification that a property is vacant and unsecured, they must make appropriate arrangements to protect the property from unnecessary deterioration due to vandalism or neglect. An inspection must be immediately scheduled and completed to document the condition of the property, in order to verify if the occupants have abandoned the property. All circumstances should be considered when making the determination as to whether a property is vacant or abandoned. For example, the presence of a “for sale” sign at a vacant property usually means it has not been abandoned but remains under the care of the owner or the owner’s real estate agent. The absence of personal property, the lack of yard maintenance, and changes to the owner’s mailing address may indicate that a property has been abandoned. Loan servicers are required to protect and preserve properties when they become abandoned and to report to VA under 38 CFR 36.4317(c)(10) via the “Occupancy Status Change” event in the VA Loan Electronic Reporting Interface (VALERI) application.

d. Interior Inspections. Following a determination that a property has been abandoned, a visual “exterior only” inspection may not reveal any emergency repairs or environmental/fire hazards, which, if not addressed at once, may pose damage to the property. Early detection of problems is critical to minimize loss in the event the property is acquired by the servicer and possibly conveyed to VA. Therefore, subsequent inspection reports on abandoned properties must include completion of interior inspections.

e. Local Requirements. Servicers must ensure compliance with all city, county, or other ordinances concerning property preservation. Most security instruments have a provision that permits the servicer to take action to protect the property securing the loan, to advance any reasonable amount necessary and proper for the maintenance or repair of the security, and to add such an advance to the guaranteed indebtedness. The removal of hazardous materials, the correction of hazardous conditions, and the avoidance of liens are primary concerns. In order to
avoid liens, whenever local codes require more extensive protection than stated in the VA guide, servicers should follow local code requirements.

f. **Risk for Loss or Damage.** Under 38 CFR 36.4323, servicers bear responsibility for any loss due to damage or destruction of the property or personal injury sustained in respect to such property from the date of acquisition by the servicer to the date such risk is assumed by VA. Risk is assumed by VA on the day successful electronic acceptance of the “Transfer of Custody” event is indicated in the VALERI application. If the “Transfer of Custody” event is rejected, risk remains with the servicer. Servicers must file hazard insurance claims and obtain a settlement for covered losses. In accordance with 38 CFR 36.4329, insurance loss proceeds must be applied to reduce the total indebtedness if not used to restore the property.

g. **Reimbursement.** Subject to the maximum guaranty payable, VA reimburses servicers via the claim under guaranty for property inspections and preservation costs incurred up to the date of loan termination, or the expiration of 210 days from the due date of the last paid installment plus the foreclosure timeframe for that state, whichever is earlier. All reimbursements are subject to the maximum allowable amounts, but actual expenses in excess of the maximum allowable amount may be appealed by the servicer. It is not the intent of VA to attempt to regulate the amounts that servicers may pay for the services performed, but to standardize the reasonable maximum amount that VA reimburses for such services. If a servicer advances funds in excess of VA’s maximum allowable amount, the servicer will be paid only the maximum allowable amount on the claim. The servicer will have 30 days to submit an appeal with all relevant documentation to evidence the actual costs, date, description and proof of completion of work to justify exceeding the maximum allowable reimbursement.

h. **Pre-Approvals.** VA does not issue pre-approvals for any property preservation item. The servicer is responsible for taking appropriate measures to protect and preserve the security for the loan. The decision as to what action to take to preserve and protect the property is at the discretion of the servicer, and it is independent of the amount that VA reimburses. If there are unusual circumstances that support an additional expense, the servicer may submit an appeal claim via the Servicer Web Portal in the VALERI application.

i. **Specific Preservation Requirements.** In order to establish uniformity in the preservation of properties, VA is providing the following directions for specific activities: securing, debris removal, boarding, equipment repair or replacement, hazard abatement, utilities, winterization, and yard maintenance.

1. **Securing.** Properties must be secured to prevent unauthorized entry and to protect against weather-related damage. All windows and doors must be secured. Broken glass should be replaced, unless the opening is to be boarded. All exterior doors shall be secured. Do not install new locks on exterior doors unless entry will be required by the servicer prior to transfer of the property to VA (e.g., to allow entry for an appraiser or insurance adjuster or to perform winterization). Non-working locks should be replaced when necessary to secure the property. Lock changes are included in the maximum allowable amount for securing the property. If a property requires the installation of a padlock or lockbox, VA will reimburse as long as the servicer does not exceed the maximum allowable for securing of the property. Please note that
fees for debris removal, boarding, equipment repair or replacement, hazard abatement, utilities, winterization, and yard maintenance are claimed separately from securing fees. When applicable, the servicer is responsible for the following additional securing activities, which are claimed separately from the overall “securing” fee: re-securing the property; temporary roof repairs; securing in-ground swimming pools; securing above-ground swimming pools; securing hot tubs or spas; and maintenance of pools, spas, and hot tubs.

(a) **Re-securing the property.** Re-securing the property is reimbursable, provided the initial securing of the property has been violated and is no longer effective. Although the re-securing fee maximum allowable amount is $0.00, VA will review re-securing fees on appeal, at which time documentation to evidence the actual cost, date, and description of work completed must be submitted to justify re-securing the property.

(b) **Temporary Roof Repairs.** Roof damage left unattended exposes a property to deterioration, moisture accumulation, and mold growth. Repairs, such as tarping/patching/replacing loose shingles, should be made immediately upon discovery of roof damage. In all cases, the most cost-effective repair method should be used.

(c) **Securing In-Ground Swimming Pools.** Servicers are required to comply with all local ordinances pertaining to swimming pools. In-ground pools (including any hot tub or spa that shares the same filtering system as the pool) must be secured but not drained. Pools (including the hot tub or spa that shares the pool filtering system), must be covered with material in such a way as to prevent an individual from accidentally falling into them. Fences must be secured to restrict access to the pool.

(d) **Securing Above Ground Swimming Pools.** If the property has an above ground pool in good condition (i.e., built-up with decking or other infrastructure that will support a pool cover) treat it as an in-ground pool. Above ground pools that are in poor condition, or that cannot be secured, should be removed.

(e) **Securing Hot Tubs or Spas.** Servicers should drain and secure portable hot tubs and spas. If a hot tub or spa is outdoors, cover it in such a way as to prevent an individual from accidentally falling into it.

(f) **Maintenance of Pools, Spas, and Hot Tubs.** Servicers must perform monthly maintenance and chemical treatment of operational pools and in-ground hot tubs or spas that are attached to the pool filtering system. Servicers must comply with city, county, and other local ordinances regarding maintenance of non-operational swimming pools. This is a per occurrence charge.

2. **Debris Removal.** Generally, cleanup of the property or removal of debris will be the responsibility of VA, once custody of the property is transferred following a foreclosure sale or deed-in-lieu. However, servicers are required to remove unhealthy or hazardous materials from the exterior and interior of properties prior to transferring custody of vacant properties and must adhere to the local municipal health and safety requirements regarding the proper disposal of said materials. For clarification, examples of health and safety hazards include, but are not limited to, highly flammable chemicals, decaying food or other organic matter, dead animals, broken glass
or other sharp objects, and large quantities of paint or paint products. Servicers are further required to check with the local municipality for health and safety hazard requirements. For all debris removal other than vehicle removal, reimbursement is provided per cubic yard of debris removed, up to the maximum allowable amount. The itemized invoice of work completed and waste management receipt must indicate the number of cubic yards removed.

3. **Boarding.** The boarding of windows and doors should only be done in those geographic areas where previous experience has shown vandalism and/or theft to be an ongoing problem, where local ordinances require boarding, if windows are broken, or where special conditions exist that make it necessary. Reimbursement for boarding expenses is provided on a “per opening” basis, up to the maximum allowable amount. For those properties where it has been determined by the loan servicer that boarding is necessary and required, the itemized invoice of work completed and materials used must include the amount paid per window or door. The following requirements should be followed:

   (a) **Windows.** Secured with 1/2” plywood or polycarbonate/clearboard.

   (b) **Doors.** Secured with 5/8” plywood or polycarbonate/clearboard.

   (c) **Other Openings.** French doors and sliding door openings should be secured with 3/4” plywood or polycarbonate/clearboard.

4. **Equipment Repair or Replacement.** The servicer must repair or install equipment required in maintaining utilities or properly winterizing a property, including sump pumps, water wells, and septic systems. Pumping water from the basement, if applicable, is also required as part of equipment repair or replacement costs.

5. **Hazard Abatement.** Hazard abatement (e.g., removing environmental hazards such as asbestos and radon) is not required, except to avoid the placement of a lien against the property by a local government. Although the hazard abatement maximum allowable amount is $0.00, VA will review hazard abatement fees on appeal, at which time documentation to evidence the actual cost, date, and description of work completed will be submitted to justify hazard abatement on the property to avoid placement of a lien.

6. **Utilities.** Utilities should be turned off unless required to protect the property. This typically involves the maintenance of electrical service for homes to maintain operation of a sump pump, or the maintenance of heat at a minimum temperature of 55 degrees Fahrenheit in northern states to prevent freeze damage. For units that are attached to other units or dwellings, water services and utilities should remain on only if those systems are shared with other units. In some cases, it may be more cost-effective to maintain utility service rather than disconnect the service. For example, in some rural areas, large fees may be charged to re-connect water service. Servicers should use proper judgment to determine the most cost-effective method of managing utilities when re-connection fees exist.

7. **Winterization.** Winterization includes disconnecting the water service and a thorough, complete draining of all plumbing and heating systems. The uses of air pressure to clear the
systems, or the adding of antifreeze to the systems are both acceptable, provided that freezing is prevented. Properties should only be winterized once per year. If the initial winterization has been violated and is no longer effective, the property should be re-winterized. On the claim under guaranty, the servicer will claim re-winterization expenses as a winterization expense, and will enter a different date from the initial winterization expense. Utilities should be turned off except for those properties that require them to remain on due to local weather conditions, Homeowners’ Association (HOA) requirements, safety concerns, or where large fees may be charged to reconnect service (as discussed in previous paragraph). When a sump pump is used to keep a basement or a crawl space dry, check to make sure the pump is operable and to ensure that the property has not been damaged by flooding.

(a) Timing. Winterization and Snow Removal are not required, nor will be reimbursed, for properties in Hawaii, Guam, Puerto Rico, or the U.S. Virgin Islands. In the jurisdictions where winterization and/or snow removal are required, these services must be conducted between October 1 and March 31. However, winterizations and/or snow removal are allowed during any month of the year in the following States: Alaska, Colorado, Connecticut, Idaho, Iowa, Illinois, Indiana, Massachusetts, Maine, Michigan, Minnesota, Montana, North Dakota, Nebraska, New Hampshire, New York, Ohio, Oregon, Pennsylvania, Rhode Island, South Dakota, Utah, Vermont, Washington, Wisconsin, and Wyoming.

(b) Special Requirements. When applicable, the servicer must comply with the following guidelines for winterizing properties with: dry heat; wet, radiant, or steam heat; reduced pressure zone valves; and pools, spas, and hot tubs.

(i) Dry Heat. The hot water heater and all domestic water supply and distribution piping should be thoroughly drained. All faucets and valves should remain open during the process and then closed after draining is completed. Adequate amounts of antifreeze are to be placed in all fixture traps, including toilet tanks and bowls.

(ii) Wet, Radiant, or Steam Heat. In addition to the requirements for dry heat systems, the house boiler system should be thoroughly drained. All radiator vents should be opened during the process. Bleeder pins should not be removed from the radiators. Any radiant heat piping should be drained and blown dry with the use of air pressure and an adequate amount of antifreeze is to be placed in the radiant piping. Note that steam heat system winterization shall be classified as “radiant heat” in the servicer’s claim under guaranty.

(iii) Reduced Pressure Zone (RPZ) Valves. An RPZ device is a type of backflow prevention device used to protect domestic water supplies from contamination. Servicers should contact the local health departments and/or state and local agencies regarding any jurisdictional requirements for the installation and/or use of the RPZ device on all wet heat systems.

(iv) Pools, Spas, and Hot Tubs. Supply lines should be winterized, but units should not be drained.

8. Yard Maintenance. When applicable, the following yard maintenance activities are the responsibility of the servicer: grass cuts, shrub trimming, and snow removal.
(a) Grass Cuts. Lawn cutting (initial and subsequent cuts) includes mowing the lawn, weeding, edge-trimming, sweeping of all paved areas (e.g., sidewalks, driveways, patios), and removal of all lawn clippings, related cuttings, and incidental debris (e.g., newspapers, flyers, bottles). These services are included in the cost allowable for an initial cut and subsequent cuts (re-cuts). Servicers should not order lawn maintenance if HOA dues cover the service.

(i.) Initial Grass Cut. Upon notice of vacancy, an initial grass cut should be performed. An initial grass cut is defined as the first cut for each calendar year prior to termination of the loan. Initial grass cuts may be completed when needed during any month of the year in the following States/territories: Alabama, Arizona, California, Florida, Georgia, Guam, Hawaii, Louisiana, Mississippi, Nevada, New Mexico, Puerto Rico, South Carolina, Virgin Islands, and Texas. Initial grass cuts are allowed from June 1 to September 30 in the State of Alaska. In all other States, initial grass cuts are allowed between April 1st and October 31st.

(ii.) Grass Re-Cuts. After the initial cut, grass should typically be re-cut twice a month during the periods listed above for initial cuts in each area. However, depending on the level of rainfall in the area, one cut per month may be sufficient, while in other areas, more frequent lawn cuts may be needed.

(b) Shrub Trimming. Overgrown shrubs or tree branches that are hazardous or obstruct doorways, public walks, and driveways shall be trimmed or removed.

(c) Snow Removal. The servicer should maintain a safe and accessible property throughout the winter season. Snow should be removed from the entry, walkway, porch, and driveway following a minimum three-inch accumulation. Servicers must comply with local codes and ordinances governing the removal of snow and ice.

i. Maximum Property Preservation Allowances. VA will pay no more than the maximum amount listed below on the guaranty claim. Servicers will have 30 days to submit an appeal with all relevant documentation to evidence the actual costs, date and description of work, and proof of its completion, to justify exceeding the maximum allowable reimbursement. Re-securing and hazard abatement must be appealed with documentation.

<table>
<thead>
<tr>
<th>DESCRIPTION OF SERVICE</th>
<th>MAXIMUM ALLOWANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Inspections</td>
<td></td>
</tr>
<tr>
<td>Initial property inspection</td>
<td>$25</td>
</tr>
<tr>
<td>Monthly property inspection</td>
<td>$25</td>
</tr>
<tr>
<td>Securing</td>
<td></td>
</tr>
<tr>
<td>Initial securing of the property</td>
<td>$230</td>
</tr>
<tr>
<td>Re-securing of property</td>
<td>0</td>
</tr>
<tr>
<td>Temporary roof repairs</td>
<td>$460</td>
</tr>
<tr>
<td>Securing in-ground swimming pools</td>
<td>$1,210</td>
</tr>
<tr>
<td>Securing above-ground swimming pools</td>
<td>$460</td>
</tr>
<tr>
<td>Securing hot tubs or spas</td>
<td>$60</td>
</tr>
</tbody>
</table>
## Maintenance of pools, spas, and hot tubs

$115

### Debris Removal

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount paid per cubic yard</td>
<td>$60</td>
</tr>
<tr>
<td>Max allowable for 1 unit</td>
<td>$690</td>
</tr>
<tr>
<td>Max allowable for 2 units</td>
<td>$865</td>
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<tr>
<td>Max allowable for 3 units</td>
<td>$1,035</td>
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<tr>
<td>Max allowable for 4 units</td>
<td>$1,210</td>
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### Vehicle Removal

$245

### Boarding

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Fee</th>
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<tbody>
<tr>
<td>Windows with ½” plywood or polycarbonate/clearboard</td>
<td>$740</td>
</tr>
<tr>
<td>Doors with 5/8” plywood or polycarbonate/clearboard</td>
<td>$345</td>
</tr>
<tr>
<td>Other openings with ¾” plywood or polycarbonate/clearboard</td>
<td>$460</td>
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</table>

### Equipment Repair or Replacement

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sump pump repair</td>
<td>$60</td>
</tr>
<tr>
<td>Sump pump installation</td>
<td>$460</td>
</tr>
<tr>
<td>Pumping water from basement</td>
<td>$1,725</td>
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<tr>
<td>Water well (pump, tank, and lines)</td>
<td>$180</td>
</tr>
<tr>
<td>Septic system maintenance</td>
<td>$780</td>
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</table>

### Hazard Abatement

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### Utilities

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>$900</td>
</tr>
<tr>
<td>Gas</td>
<td>$900</td>
</tr>
<tr>
<td>Oil</td>
<td>$1,800</td>
</tr>
<tr>
<td>Propane</td>
<td>$1,800</td>
</tr>
<tr>
<td>Water and sewer</td>
<td>$2,250</td>
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</tbody>
</table>

### Winterization

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dry heat – 1 unit</td>
<td>$160</td>
</tr>
<tr>
<td>Dry heat – additional units</td>
<td>$85</td>
</tr>
<tr>
<td>Wet heat – 1 unit</td>
<td>$230</td>
</tr>
<tr>
<td>Wet heat – additional units</td>
<td>$145</td>
</tr>
<tr>
<td>Radiant heat – 1 unit</td>
<td>$290</td>
</tr>
<tr>
<td>Radiant heat – additional units</td>
<td>$145</td>
</tr>
<tr>
<td>Reduced Pressure Zone (RPZ) Valves</td>
<td>$220</td>
</tr>
</tbody>
</table>

### Yard Maintenance

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial cut up to 5,000 s.f.</td>
<td>$115</td>
</tr>
<tr>
<td>Initial cut 5,001 to 10,000 s.f.</td>
<td>$145</td>
</tr>
<tr>
<td>Initial cut 10,001 s.f. or larger</td>
<td>$175</td>
</tr>
<tr>
<td>Re-cut up to 5,000 s.f.</td>
<td>$90</td>
</tr>
<tr>
<td>Re-cut 5,001 to 10,000 s.f.</td>
<td>$100</td>
</tr>
<tr>
<td>Re-cut 10,001 s.f. or larger</td>
<td>$125</td>
</tr>
<tr>
<td>Trim Shrubs</td>
<td>$50</td>
</tr>
<tr>
<td>Snow Removal</td>
<td>$70</td>
</tr>
</tbody>
</table>