

VA Financial Policies and Procedures
Other Assets – Real Estate Owned

CHAPTER 10A

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1001 OVERVIEW

This chapter establishes the Department of Veterans Affairs (VA) financial policies and procedures relating to Other Assets – Foreclosed Property (Real Estate Owned (REO) property).

VA acquires REO properties when Veterans with guaranteed loans or borrowers for direct loans are seriously delinquent in their monthly mortgage payments and all efforts to cure the defaults have failed. VA can acquire properties through foreclosure or deed in lieu of foreclosure transactions. The latter method involves obtaining title through assuming the underlying property note. REO's are marketed for resale as either a cash sale or a vendee loan

For loans made or guaranteed on or after October 1, 1991, VA will account for them as required in the Credit Reform Act of 1990. For loans made or guaranteed prior to this date, VA will account for them using the lower cost or net realizable value method.

Foreclosed property, starting with fiscal year (FY) 1992, is valued at the net present value of the projected future cash flows associated with the property. Pre-FY1992 foreclosed property is recorded at cost and adjusted to the lower of cost or net realizable value with any differences recorded in a valuation allowance account.

Inventory policies and procedures in Volume V, Chapter 8, Inventories, are directly relevant to this asset category.

1002 POLICIES

100201 VA will maintain inventory control in connection with all foreclosed property acquired, or in process of acquisition, under the mortgage loan programs.

A. Individual accounts will constitute a continuous record of all financial transactions relating to each property from date of acquisition to date of disposal.

B. All accounting events for foreclosed properties will be posted to U.S. Standard General Ledger Account 1551, Foreclosed Property.

100202 VA will value foreclosed property, starting with FY 1992, at the net present value of the projected future cash flows associated with this property.

100203 VA will adjust the net present value amount periodically to recognize both changes in the expected future cash flows and any accrual of interest due to the passage of time. Any adjustments to the carrying amounts will be included in the presentation of interest income and the re-estimate of subsidy expense.

100204 VA will post all other expenses and revenues associated with the property to the foreclosed property account. This account will include rental receipts, maintenance and repair expense, advertising costs and any other elements of the projected cash flows considered in arriving at the net present value.

100205 VA will recognize the difference between the adjusted carrying amount and the net sales proceeds as a reestimate of the positive or negative subsidy credit upon sale of post-FY 1991 property.

100206 VA will record pre-FY 1992 foreclosed property at cost and adjust the property value to the lower of cost or its net realizable value with any difference carried forward in a valuation allowance account.

1003 AUTHORITY AND REFERENCES

100301 [Statement of Federal Financial Accounting Standards \(SFFAS\) No. 3, Accounting for Inventory and Related Property](#)

100302 [Office of Management and Budget \(OMB\) Circular A-136, Financial Reporting Requirements - Revised](#)

1004 ROLES AND RESPONSIBILITIES

100401 The Assistant Secretary for Management/Chief Financial Officer (CFO), as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309, oversees all financial management activities relating to the Department's programs and operations. Specific responsibilities include the direction, management and provision of policy guidance and oversight of VA's financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.

100402 Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chief Accountants and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

100403 The Office of Financial Policy (OFP), under the CFO's direction, provides Departmentalwide financial policy and guidance. Among its responsibilities, OFP develops, coordinates, issues, evaluates and reviews VA financial policies, including those that impact financial systems, and procedures for compliance with all financial laws and regulations.

1005 PROCEDURES

100501 VA will record Foreclosed Property (REO) in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 3, Accounting for Inventory and Related Property.

100502 VA will ensure that its reporting of Foreclosed Property (REO) is consistent from period to period so that consolidated financial statements for this category of assets are comparable and enhance statement analysis.

1006 DEFINITIONS

100601 Credit Reform Accounting. The Federal Credit Reform Act of 1990 is effective for all direct loans and guaranteed loans established October 1, 1991, and thereafter. This includes all loans made or guaranteed prior to this date that are substantially modified October 1, 1991, or later. Under Credit Reform, expected losses on loans are subsidized in advance, in the year that the loans are made or guaranteed. These subsidies, plus loan-related funding fees and other collections, earn interest which is used to pay off claims in the future. To implement Credit Reform, OMB established three categories of funds: Liquidating Accounts for all pre-FY 1992 loan activity; Program Accounts for OMB budgeted subsidies apportioned in the current year, plus all current year costs to administer the fund in which the loans are made; and Financing Accounts for all loan proprietary accounting and claims and expenses payments. Each Financing Account must be able to distinguish all financial activity by distinct fiscal year beginning with FY 1992 (cohort year). Credit Reform accounting relies on the date of the loan to distinguish between Liquidating and Financing Account transactions within Loan Guaranty, Guaranteed and Indemnity and Direct Loan activity.

100602 Debt plus Cost. The sum of the unpaid principal balance, accrued unpaid interest, allowable paid liquidation expenses and allowable advances, less any credits.

100603 Net Value. The fair market value, minus a cost factor VA determines on an annual basis. The cost factor is a percentage of fair market value and represents the cost to VA of acquiring and disposing of properties. VA publishes the cost factor annually in the Federal Register.

100604 Positive or Negative Subsidy. Credit reform recognizes that a loan's true cost is not captured by its cash flows in any one year. The true cost is the net value of its cash flows over the life of the loan. This value is the loan's "subsidy cost", which is the net present value of a loan's expected cash inflows and outflows over the life of the loan. The positive subsidy is where the net present value of the inflows exceeds the outflows; the negative subsidy is where the net present value of the outflows exceeds the inflows.

100605 Real Estate Owned (REO). Real estate owned by VA as a result of default by borrowers and subsequent foreclosure.

100606 Vendee Loans. A term sale, wherein VA acts as the lender; it is underwritten and issued by the contractor for VA.

1007 QUESTIONS

Questions concerning these financial policies and procedures should be directed as shown below:

VHA	VHA Accounting Policy (Outlook)
VBA	VAVBAWAS/CO/FINREP (Outlook)
All Others	OFP Accounting Policy (Outlook)