# Department of Veterans Affairs

# Financial Policy

## Volume V

### Assets

## Chapter 10A

### Foreclosed Property

### Acquired

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1001 Overview ........ 2

1002 Revisions ........ 2

1003 Definitions ........ 2

1004 Roles and Responsibilities ........ 3

1005 Policies ........ 4

100501 General Policies ........ 4

100502 Management and Accounting of Foreclosed Property Acquired ........ 5

100503 Reporting for Foreclosed Property Acquired ........ 6

1006 Authorities and References ........ 6

1007 Rescissions ........ 7

1008 Questions ........ 7

## 1001 Overview

This chapter establishes the Department of Veterans Affairs (VA) financial policies for foreclosed property acquired under the various VA home loan programs. VA's guaranteed loan programs encourage private lenders to provide financing for eligible borrowers. VA's programs also offer direct loans on federal trust land or to supplement grants. Home loans become delinquent when a borrower misses one or more mortgage payments and are considered in default if payments are delinquent for more than 90 days. VA will utilize all methods available to assist a borrower in maintaining homeownership; however, if necessary (i.e., homes are abandoned or there is little possibility of a private sale) VA will acquire the properties.

Key points covered in this chapter:

- VA will work with borrowers and servicers to prevent foreclosing on a property;
- Veterans Benefits Administration (VBA) will manage the foreclosed property acquired in accordance with the laws, regulations, and VA requirements; and
- VA will value, record, report, and disclose foreclosed property acquired in accordance with the Federal Credit Reform Act (FCRA) of 1990, the Office of Management and Budget (OMB) Circular A-136, and related Statement of Federal Financial Accounting Standards (SFFAS) issued by the Federal Accounting Standards Advisory Board (FASAB).

## 1002 Revisions

| Section | Revision | Office | Reason for Change | Effective Date |
|---|---|---|---|---|
| Various | Reformatted to new policy format and completed 5-year review | OFP (047G) | Reorganized chapter layout | February 2019 |
| 1005 Policies | Updated policy statements | OFP (047G) | Properly reflect VA's current foreclosure process of VA direct loans and guaranteed loans | February 2019 |

## 1003 Definitions

**Credit Reform Accounting** – An accounting concept and methodology established by FCRA.

**Deed In Lieu of Foreclosure** – A loss mitigation option in which the borrower voluntarily offers the deed to VA in exchange for a release from all obligations under the mortgage.

**Default** – The borrower fails to make a mortgage payment or comply with the terms of the original loan documents signed at closing. It is often used to refer to loans that have been delinquent for more than 90 days.

**Discount Rate** – An interest rate that is applied in present value calculations to estimate the value of future payments.

**Foreclosure** – A seizure of mortgaged property, in order to obtain value for a defaulted loan. Foreclosure terminates all rights that the mortgagor has in the mortgaged property upon completion of due process through the courts.

**Loss Mitigation** – An option available to help borrowers avoid foreclosure on delinquent loans and reduce possible loss to the government.

**Present Value** – The current value of future cash flows.

**Subsidy Cost** – The cost that represents a loan's true cost under FCRA, which is the net present value of a loan's expected cash inflows and outflows over the life of the loan.

**Servicer** – A company which performs services in connection with mortgages and mortgage-backed securities.

**VA Loan Electronic Reporting Interface (VALERI)** – The web-based system that supports VA employees and servicers in the oversight and servicing of guaranteed loans.

**Web Enabled Loan Guaranty System (WebLGY)** – VA's system utilized by Loan Guaranty Service to manage loan origination and liquidation data and property information.

## 1004 Roles and Responsibilities

**Loan Guaranty Service (LGY), VBA** is responsible for ensuring servicers' compliance with laws, regulations, and VA's requirements. LGY is also responsible for the preservation, marketing, and the sale of foreclosed property; as well as, overseeing the day-to-day financial operations associated with the two-way interface between VA's accounting system, VALERI, and WebLGY.

**Accounting Policy and Reporting Division (APRD), VBA** is responsible for providing guidance on the accounting methods used to value, record, and post foreclosed property acquired in accordance with authoritative guidance. APRD also assists the Office of Financial Policy (OFP) in the reporting and disclosure of foreclosed property.

**Administrative and Loan Accounting Center (ALAC), VBA** is responsible for a full range of accounting services in support of the VA loan guaranty program and providing administrative accounting services for certain VA regional offices and other VBA facilities. ALAC manages daily accounting operations for foreclosed property via VA's accounting system and performs reconciliations to ensure the accuracy of accounting records.

## 1005 Policies

### 100501 General Policies

A. VA will use foreclosure only as a last resort. To prevent foreclosure, VA will adopt all relief options to maintain the borrower's homeownership, such as conducting loss mitigations, providing incentive payments to servicers, purchasing loans from the mortgage holder for deserving borrowers, and conducting a thorough pre-foreclosure review.

B. For all foreclosed property acquired, VA will comply with:

- Federal Credit Reform Act (FCRA) of 1990;
- Title 38, C.F.R. Part 36, Loan Guaranty;
- Related SFFAS issued by FASAB;
- OMB Circular A-136, Financial Reporting Requirements – Revised;
- Treasury Financial Manual (TFM) and credit reform case studies; and
- VBA home loan circulars and materials

C. After deciding to foreclose a property, VA will proceed with foreclosure activities such as:

- Delegate, to the servicers, the authority to complete all termination actions on VA guaranteed loans;
- Require the servicers to comply with all federal, state, county, and local foreclosure laws and follow VA's requirements;
- Acquire the properties;
- Review required foreclosure related information submitted by servicer in VA Loan Electronic Reporting Interface (VALERI);
- Assign an appraiser to establish property value for the purpose of foreclosure;
- Require the servicers to schedule and carry out foreclosure sales; and
- Authorize servicers to use an auction service when it is legal to terminate a VA-guaranteed loan through an auction sale versus a foreclosure sale.

### 100502 Management and Accounting of Foreclosed Property Acquired

A. VBA's LGY will manage foreclosed property acquired in accordance with Title 38, C.F.R. Part 36, Loan Guaranty, related SFFAS, and VBA related Home Loan Circulars and Materials.

B. The FCRA, with associated credit reform accounting methodology, divides loans obligated and guarantees committed into two categories: post-1991 and pre-1992.

1. Foreclosure of post-1991 direct loans and guaranteed loans – VA will apply the present value accounting method to foreclosed properties as required.

2. Foreclosure of pre-1992 direct loans and guaranteed loans – the present value method is permitted, but not required. VA will apply the present value method to foreclosed properties, with the exception of using the loss allowance method for bad debt.

C. When the property is transferred to VA through foreclosure or deed in lieu of foreclosure, ALAC will record the foreclosed property as an asset at the present value of its estimated future net cash inflows discounted at the original discount rate.

D. VA will maintain control of documentation (per 38 CFR 36.4333, Maintenance of records), data, and information relating to all foreclosed property acquired, or in the process of acquisition, under VA's loan programs.

- VALERI and Web Enabled Loan Guaranty System (WebLGY) are the central portals to maintain, monitor, and process data and information associated with foreclosed properties;
- There is a two-way data and information transfer between VALERI and WebLGY; both systems interface with VA's accounting system.

E. LGY will monitor the two-way transfer of information between VA's accounting system, VALERI, and WebLGY. ALAC will perform reconciliations to ensure data and information accuracy, as needed.

F. After the acquisition and prior to the disposition of the property, ALAC will record the following items on the foreclosed property account to reflect adjustments or changes to the property value with the passage of time.

1. The present value calculated via original discount rate will be adjusted for the interest rate reestimate.

2. Changes in the estimated future cash flows and any accrual of interest due to the passage of time will be calculated at net present value.

3. All other expenses and revenues associated with the property will be calculated at the net present value.

G. LGY, or its assigned contractor, will market foreclosed property acquired for resale.

H. Upon the sale of the foreclosed property, ALAC will record the difference between the adjusted property value and net sales proceeds as adjustments to the allowance for subsidy costs for direct loans; or loan guarantee liability for guaranteed loans.

### 100503 Reporting for Foreclosed Property Acquired

A. VBA's APRD will ensure that foreclosed property acquired is appropriately reported to Treasury and on VA's consolidated balance sheet.

B. OFP, in coordination with APRD, will:

- Report foreclosed property acquired under Direct Loans and Loan Guarantees, Net on VA's consolidated balance sheet; and
- Disclose the pre-1992 and post-1991 foreclosed property separately in the related financial statement notes.

## 1006 Authorities and References

Federal Credit Reform Act of 1990

OMB Circular A-136, Financial Reporting Requirements – Revised

38 C.F.R. Part 36, Loan Guaranty

SFFAS 2: Accounting for Direct Loans and Loan Guarantees

SFFAS 3: Accounting for Inventory and Related Property

SFFAS 18: Amendments to Accounting Standards For Direct Loans and Loan Guarantees in Statement of Federal Financial Accounting Standards No. 2

SFFAS 19: Technical Amendments to Accounting Standards For Direct Loans and Loan Guarantees in Statement of Federal Financial Accounting Standards No. 2

TFM Supplemental USSGL

Treasury Credit Reform Accounting Case Studies

VBA Home Loan Circulars

VBA Home Loan Materials

## 1007 Rescissions

VA Financial Policy, Volume V, Chapter 10A - Other Assets - Real Estate Owned dated August 20, 2009.

## 1008 Questions

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

| | |
|---|---|
| VBA | VAVBAWAS/CO/FINREP (Outlook) |
| VBA | VAVBAWAS/CO/OPERATIONS (Outlook) |
| All Others | OFP Accounting Policy (Outlook) |