

INTERIOR INSPECTIONS ON ABANDONED PROPERTIES

1. **Purpose.** The purpose of this circular is to clarify VA's position on requirements for conducting interior inspections on abandoned properties.
2. **Background.** In accordance with Title 38, Code of Federal Regulations (CFR), sections 36.4346(i) and 36.4850(i), loan holders 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 the 60th day 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.
3. **Inspections During Liquidation.** The regulatory requirement for monthly inspections after the start of liquidation proceedings states that when the security property is owner-occupied such inspections are not required. 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 an abandonment, VA believes regular inspections (at least monthly) 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.
4. **Vacant or Abandoned.** To prevent unnecessary deterioration due to vandalism or neglect, loan holders are required to protect and preserve properties when they become abandoned. 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. When a servicer receives advice that a property is vacant and unsecured, an inspection shall be immediately scheduled and completed to document the condition of the property in order to verify that the occupants have abandoned the property. Appropriate steps must be taken immediately to secure the property. In addition, the property abandonment must be reported to VA under 38 CFR 36.4346(i)(2), or under section 36.4817(c)(10) if the servicer is operating under the VALERI (VA Loan Electronic Reporting Interface) regulations. Guidance on VA property preservation policy is provided in Annex 12 of the Servicer Guide, which can be found at the VALERI website, <http://www.homeloans.va.gov/valeri.htm>.

5. 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 holder and possibly conveyed to VA. Therefore, subsequent inspection reports on abandoned properties must include completion of interior inspections.

6. Costs. For a current list of maximum allowable fees and expenses for property inspections and preservation, refer to the Fee Cost Schedule from the VALERI web page, <http://www.homeloans.va.gov/valeri.htm>.

7. Additional Information. This circular will be posted to the VA Loan Guaranty website <http://www.homeloans.va.gov>. Questions concerning this circular may be e-mailed to Mary Ann Mills at mary.mills@va.gov.

8. Rescission. This circular is rescinded July 1, 2010.

By Direction of the Under Secretary for Benefits

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