

### **Property Preservation Requirements and Fees**

1. Purpose. This Circular is issued to provide national guidance and describes minimum requirements for the inspection of properties securing VA-guaranteed home loans and the maintenance, preservation, and repair of any properties found to be abandoned. Additionally, this Circular contains a property preservation fee schedule which contains a table of the maximum fees that will be reimbursed by VA for those services in a claim under the loan guaranty. Effective immediately, these requirements and fee amounts apply to any work completed on, or after, August 31, 2015.

2. Exhibits. Exhibit A describes VA policy on property preservation and Exhibit B is a table listing the maximum amounts to be reimbursed by VA on a claim under the guaranty.

3. Rescissions:

a. Circular 26-09-12 is hereby rescinded.

b. This Circular is automatically rescinded February 1, 2016.

By Direction of the Under Secretary for Benefits

Michael J. Frueh  
Director, Loan Guaranty Service

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## **VA Property Preservation Guidelines**

1. **Introduction.** This attachment sets forth the minimum requirements for the inspection and preservation of properties securing VA-guaranteed loans. If at any time local codes require more extensive protection than stated in this guide, servicers should follow local code requirements. Failure to protect and preserve the security may result in an adjustment of a guaranty claim if the servicer's failure increased VA's liability on the loan.

2. **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.

3. **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.

4. **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.

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

6. 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.

7. 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 (TOC)” event is indicated in the VALERI application. If the “TOC” 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.

8. 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-calendar days to submit an appeal with all relevant documentation to provide evidence of the actual costs, date, description and proof of completion of work to justify exceeding the maximum allowable reimbursement.

9. 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 (SWP) in the VALERI application.

10. 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.

a. 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.

(1) 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 provide evidence of the actual cost, date, and description of work completed must be submitted to justify re-securing the property.

(2) 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.

(3) 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.

(4) 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.

(5) 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.

(6) 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.

b. 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 (DIL). 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.

c. 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:

- (1) Windows. Secured with 1/2" plywood.
- (2) Doors. Secured with 5/8" plywood.
- (3) Other Openings. French doors and sliding door openings should be secured with 3/4" plywood.

d. 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.

e. 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.

f. 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.

g. 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.

(1) Timing. Winterization is not required, nor will winterization be reimbursed for properties in Hawaii, Guam, Puerto Rico, or the U.S. Virgin Islands. In the jurisdictions where winterization is required, properties are to be winterized between October 1 and March 31. However, winterizations 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.

(2) 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.

(a) 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.

(b) 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.

(c) 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.

(d) Pools, Spas, and Hot Tubs. Supply lines should be winterized, but units should not be drained.

h. Yard Maintenance. When applicable, the following yard maintenance activities are the responsibility of the servicer: grass cuts, shrub trimming, and snow removal.

(1) 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.

(a) 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 1 and October 31.

(b) 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.

(2) Shrub Trimming. Overgrown shrubs or tree branches that are hazardous or obstruct doorways, public walks, and driveways shall be trimmed or removed.

(3) 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.

**Maximum Property Preservation Allowances**

a. VA will pay no more than the maximum amount listed below on the guaranty claim. Servicers will have 30-calendar 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.

DESCRIPTION OF SERVICE	MAXIMUM ALLOWANCE
<b>Property Inspections</b>	
Initial property inspection	\$25
Monthly property inspection	\$25
<b>Securing</b>	
Initial securing of the property	\$230
Re-securing of property	\$0
Temporary roof repairs	\$460
Securing in-ground swimming pools	\$1,210
Securing above-ground swimming pools	\$460
Securing hot tubs or spas	\$60
Maintenance of pools, spas, and hot tubs	\$115
<b>Debris Removal</b>	
Amount paid per cubic yard	\$60
Maximum allowable for 1 unit	\$690
Maximum allowable for 2 units	\$865
Maximum allowable for 3 units	\$1,035
Maximum allowable for 4 units	\$1,210
Vehicle Removal	\$245
<b>Boarding</b>	
Windows with 1/2" plywood	\$740
Doors with 5/8" plywood	\$345
Other openings with 3/4" plywood	\$460
<b>Equipment Repair or Replacement</b>	
Sump pump repair	\$60
Sump pump installation	\$460
Pumping water from basement	\$1,725
Water well (pump, tank, and lines)	\$180
Septic system maintenance	\$780
<b>Hazard Abatement</b>	\$0

**Maximum Property Preservation Allowances**

DESCRIPTION OF SERVICE	MAXIMUM ALLOWANCE
<b>Utilities</b>	
Electricity	\$900
Gas	\$900
Oil	\$1,800
Propane	\$1,800
Water and sewer	\$2,250
<b>Winterization</b>	
Dry heat – 1 unit	\$160
Dry heat – additional units	\$85
Wet heat – 1 unit	\$230
Wet heat – additional units	\$145
Radiant heat – 1unit	\$290
Radiant heat – additional units	\$145
RPZ Valves	\$220
Pools, Spas, and Hot Tubs	\$460
<b>Yard Maintenance</b>	
Initial cut up to 5,000 s.f.	\$115
Initial cut 5,001 to 10,000 s.f.	\$145
Initial cut 10,001 s.f. or larger	\$175
Re-cut up to 5,000 s.f.	\$90
Re-cut 5,001 to 10,000 s.f.	\$100
Re-cut 10,001 s.f. or larger	\$125
Trim Shrubs	\$50
Snow Removal	\$70