What Impact Does PreSale Property Preservation have on the HUD Claims Process?

We all know how important Property Preservation is to the Mortgage Industry; keeping homes and neighborhoods from blight. But do you really know how much impact it has on the HUD claims process? It is extremely important for Property Preservation Contractors and Vendors to follow HUD Guidelines and provide timely and accurate information to the Servicers. Without the proper documentation Servicers cannot be reimbursed by HUD for the work performed which may result in additional and often substantial losses.

Work Orders

HUD has guidelines established for all work required in order to bring a property into conveyance condition (ICC). It needs to be clearly identified by the Property Preservation Vendor if work is being completed based on a HUD allowable, cost estimator, an over allowable or servicer approval. If this information was provided for all the work, there would be a reduction in the amount of research needed as well as the number of questions sent to the Property Preservation Vendor. This would also allow for maximum reimbursement for the Servicer. Supporting documentation for re-securing and re-winterization as well as completed and accurate dump/storage receipts would reduce losses. In addition, having supporting documentation for state or local ordinances to support evictions or work completed is required during a HUD claims review audit.

Photographs

Photographs are required to document the first time vacancy (FTV), property condition and all completed Property Preservation work. It is imperative to take photos at the FTV to validate the condition of the property. Additionally, when returning to inspect vacant properties, photos supporting the property condition are required. If damages are found at FTV and photo documentation is provided, this will assist the Servicer in the filing of its hazard claim. Additionally, it will help prove that the Mortgagee did not neglect its Servicing responsibility to properly protect and preserve the home. If proper photo documentation is not completed and provided, the Mortgagee may be held responsible for the damages which could include unreimbursable repairs, interest curtailment or in a worst case scenario, the inability to convey the property to HUD. If a Servicer cannot convey the property to HUD, the Servicer may be liable for the entire loss on the loan.
Supporting photos are needed to document all Property Preservation work that is being completed. If before and after photos of all Property Preservation work is not provided, it is not claimable for reimbursement, meaning the Servicer will take the loss. There is a possibility that the Servicer may bill back their losses to the Property Preservation Vendor for failing to comply with HUD Guidelines. Mortgagee Letter 2010-18 specifies that digital photography must be used. Part of the claims process is to verify the validity of the photos supporting the work being included on the claim. In order for this be done efficiently, the photos must be labeled and dated. In addition, the before and after photos should be displayed next to each other in the Property Preservation system and when they are loaded into the HUD portal, P260. Photos should be labeled with the service performed and should also be labeled to indicate whether they were taken before, during or after the completion of that service. This is particularly important if the work being performed is specific to a certain region of the country. For example, not all people may be familiar with a ‘swamp cooler’ (a device that cools air through the evaporation of water). Therefore, they may not be able to recognize the photos to support that work being completed. The angle in the before and after photos must be the same. This is important to clearly illustrate services. A good example of this requirement can be seen with tree and shrub trimming. As many shrubs look the same, the background is important. If the photo does not confirm the shrubs to be the same, the work may not be reimbursed by HUD. In addition, if photographs are not included at the time of the claim review, the expenses will be disallowed.

Prior to claim submission, photos should be reviewed to determine if there is a mobile home on the property. If mobile homes and/or manufactured homes are not properly identified and resolved before conveyance to HUD, HUD may re-convey the property to the Servicer. Promptly and properly identifying the mobile home and providing good communication to the Servicer allows the Servicer to clear title and conveyance of the property. Photos of the data plate and HUD tag must be clear so that all the letters and numbers can be read. Photos of the crawl space or basement are also helpful when verifying if a property is a mobile home. It is important to remember that in the event that a property is re-conveyed, photographs play a key role in HUD accepting the property back into their inventory.

Damages

Damages that are discovered at each property need to be identified and tracked accurately. Due to HUD’s strict guidelines on conveying properties with damages, it is very important to document the following:

- If damages exist
- If the damages were repaired
- If a HUD convey- as- is request is approved
- If a hazard claim was filed

This information needs to be commented extensively throughout the notes on the loan or summarized at the time ICC is reported. This will allow for accurate comments to be placed on the claim regarding any damages or insurance claim proceeds as required by HUD. Without having this information readily available with minimal research, there is a risk that the information could be missed and may result in a non-compliance letter or a re-convey.
**Multiple Units**

HUD requires the number of units be properly identified on the 27011-A claim form. Property Preservation Vendors should have a very clear indication of the first time vacancy and secure dates for each individual unit.

**Borrower Contact on Tenant Occupied Properties**

Effective May 2009, President Obama signed into law the “Protecting Tenants at Foreclosure Act of 2009”. This protects tenants who occupy properties as their primary residency. Having Property Preservation Vendors clearly indicate a tenant occupied property would assist in the review of the eviction for compliance.

**ICC Notification**

HUD requires all properties that are conveyed to be in conveyance condition (ICC). It is very important for the Property Preservation Vendor to provide accurate ICC notification. If a property is incorrectly reported as ICC, there is a risk that the property could be conveyed in error. If a property is conveyed to HUD that is not ICC, HUD may re-convey. Therefore, it is important to report any property that is no longer ICC as quickly as possible. Notification that the property is ICC needs to be reported in a timely manner. Many Servicers have very short timeframes to allow conveyance of the property from when the property was discovered ICC. Therefore, this information needs to be updated and provided as quickly as possible to allow for the conveyance of the property before the timeframe expires. If the property is not able to be conveyed during this timeframe, a re-verification needs to be ordered as soon as the deadline set forth by the Servicer expires.

**Conveyance Extensions**

The time frame to convey the property to HUD is 30 days from the later of the foreclosure deed recording and/or the FTV date (date discovered or should have been discovered), the Property Preservation Vendor should immediately report this information to the Servicer. The extension requests need to be submitted to HUD before the time frame to convey expires. When applicable the Property Preservation Vendor maybe responsible to complete the extensions requests to HUD. Additionally, the extensions must be completed accurately with the most up to date information. If the extension forms are not completed correctly, there is risk that they may not be able to be utilized. Occasionally, there are times that the extensions are requested based off of inaccurate information, such as a foreclosure deed recording, RRC (Redemption, Ratification and Confirmation) expiration, sale or first time vacancy. This information should be verified through the Servicer to ensure accuracy and avoid a curtailment of interest.

**About Claims Recovery Financial Services:**

Claims Recovery Financial Services, LLC (CRFS) is a leading provider of claims processing management solutions. CRFS processes Post-Foreclosure FHA, VA, MI, and Investor Claims, provides loss analysis review, consulting and on-site training for lenders, mortgage service companies and other financial institutions throughout the U.S. Founded in 2002 and headquartered in Albion, NY, the company employs more than 280 people.