

**TITLE:** Real Estate Foreclosures  
**PROCEDURE:** 210.2.6  
**REVISION DATE:** 3-23-2005

**I. General information**

- A. Real estate foreclosures generally occur when a loan becomes 60-90 days delinquent, when the collector is unable to establish a satisfactory payment plan with the member and there is sufficient value in the property to cover all or part of the loan balance.
- B. Once the foreclosure is complete, and the borrower's obligation is cancelled, the collateral becomes the property of \_\_\_\_\_ and is reported to the Accounting Department as a foreclosed asset.
- C. All real estate foreclosures must be approved by the supervisor of Asset Portfolio Management or manager of Loan Portfolio Management.
- D. Once the foreclosure is approved, the status of the loan is changed in CT Vision, which in turn updates OSI and notifies the credit bureaus.
- E. If the foreclosed property is in \_\_\_\_\_ possession at the end of each year, \_\_\_\_\_ must provide the IRS with a 1099-A (Acquisition or Abandonment of Secured Property).

**II. Foreclosing (Loss Management)**

- A. Contact a foreclosure company or attorney to initiate the foreclosure.
- B. Notice of Default (NOD) is sent by the trustee to the member within one week after receipt of the loan information.
- C. ANOD, and publication in the newspapers, a Notice of Trustee Sale is sent by the trustee via certified mail to the member and all junior lien-holders. The Notice of Trustee Sale discloses the trustee sale date, which is normally 90 days from the date of the notice.
- D. The collector obtains a payoff from the senior lien holder (if applicable).
- E. Prepare bid instructions and wire funds to the trustee (including principle, interest, and corporate advances) five days prior to the sale date.
- F. Contact the approved realty firm one week prior to sale date to coordinate sales price and marketing plan.
- G. On the sale date:

1. Confirm purchase of the property.
2. Provide property information to corporate insurance analyst.
3. Send the following information to the Accounting Department:
  - a. Member's name and loan account number.
  - b. Date of foreclosure.
  - c. Loan balance at date of foreclosure. Include the principal balance and costs incurred to take possession (e.g., legal fees, recording fees, property taxes, senior debt paid).
  - d. Estimate of the asset's fair value.
  - e. Estimate of selling costs of the asset (include any repairs, operating expenses, and settlement costs).
  - f. Any senior debt carried by the asset.

**Note:** Inform the Accounting Department if any senior debt is paid off during or after foreclosure.

4. Determine the occupancy status of the property. If occupied, contact the member to determine whether the termination of tenancy will be voluntary or involuntary.
5. Send the senior lien holder a payoff (if applicable).
6. Confirm that the property is vacated. Once it is, contact our approved realty/property management firm to perform the following:
  - a. Have the locks changed.
  - b. Call to transfer all utility bills from the member to
  - c. Visually inspect the property for cleaning and repair.
  - d. Provide an estimate of cleaning and repair costs, if any.
  - f. Execute Listing Agreement approved by the VP of Lending.
  - g. Add to the Website.

H. For First Mortgage Loans foreclosed by Subservicer follow steps F and G above.

**IV. Transferring the loan balance**

A. Remove the loan balance from the database by posting it to the Assets Acquired Liquidation of Loans GL 1321, offset code REO.

Comment [f1]: Is this in OSI somewhere now?

B. Enter the member's name and account number as the transaction description.

C. Print receipts, and reconcile the totals to the GL Offset total shown on the TTC.

**V. Purchase offers on Real Estate Owned (REO) properties**

A. All purchase offers must be reviewed and approved by the VP of Lending.

B. Upon receipt of sales proceeds remit check to the Accounting Department for processing.

C. Verify that all expenses have been paid before charging off deficiency balance, if any.

D. Submit deficiency balance for loan write-off.

E. If a foreclosure results in more than \$600 less than the full amount owing, an IRS 1099-C (Cancellation of Debt) must be provided to the IRS and to the borrower(s).

**VI. Regulatory Requirements**

A. While conducting this process, information will be protected in accordance with procedure 301.1.2.

B. Revised Codes of Washington

C. Internal Revenue Code

**VII. Process Owners**

Loss Management

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