

**Examination Procedures  
For Reviewing a Banking Organization's Abandoned Foreclosures Process<sup>1</sup>**

**July 11, 2012**

**General**

Has the supervised organization decided not to complete any foreclosures after the foreclosure process was initiated? If yes, continue with examination procedures.

**Safety and Soundness**

1. Review a banking organization's policies and procedures for regular monitoring of property values to support the analysis to continue or abandon the foreclosure. Collateral valuation information should be sufficient to support a decision to initiate, continue, or abandon a foreclosure proceeding. Refer to the *Interagency Appraisal and Evaluation Guidelines* (SR letter 10-16).
2. Discuss findings with the organization's management and obtain any necessary commitment for corrective action. Assess whether these actions will address the noted deficiencies and weaknesses and, if not, determine whether supervisory action is necessary.

**Consumer Compliance**

1. Review written internal policies and procedures relating to the banking organization's decision-making process for discontinuing foreclosures. The policies and procedures should address:
  - a. A comparison of the option of continuing the foreclosure or abandoning the foreclosure, considering the cost and potential recovery in a net present value analysis.
  - b. Current information on the property's value to support the analysis.
  - c. Appropriate management review and oversight of the decision to abandon the foreclosure.
  - d. Management reporting of loans and properties for which the organization has abandoned its right to foreclose.
  - e. Internal controls to demonstrate compliance with policies and procedures, including governance over policy exceptions.
  - f. Responsibilities of internal audit and compliance functions to confirm the organization's compliance with laws, regulations, and internal policies related to abandoned foreclosures.
2. Determine whether the organization is adhering to its policies and procedures governing its decision to discontinue a foreclosure by reviewing a reasonable sample of the organization's loan files and other internal documents.

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<sup>1</sup> Before incorporating a review of abandoned foreclosure practices in either a consumer compliance or safety-and-soundness examination, the reviewing examiner should discuss the scope of the review with an examiner from the other supervisory area to avoid duplication of effort.

3. Determine whether the organization's consumer inquiry and complaint process adequately addresses inquiries on the abandonment of a foreclosure by reviewing a reasonable sample of the organization's inquiries and complaints from property owners and the files evidencing the organization's investigation and response to borrower correspondence, loan files, and inquiries and complaints from property owners.
4. Assess the adequacy of the organization's policies and procedures regarding the methods used to notify property owners of its decision to discontinue a foreclosure proceeding, including methods used to locate property owners that are no longer living in the dwelling.
5. Assess the adequacy of the organization's policies and procedures regarding the methods used to notify local authorities and other relevant parties of its decision to discontinue a foreclosure proceeding. Include an assessment of the adequacy of the organization's methods to ensure that the organization complies with any requirement, as well as state and local laws, to report its decision to discontinue a foreclosure proceeding to any local centralized registry system or has made reasonable attempts to notify the appropriate governing entity if no property registry system exists in the local jurisdiction.
6. Determine whether the organization's decision-making process for initiating and discontinuing a foreclosure proceeding reflects responsible, prudent business practices that consider current collateral value information on the property and the effect of foreclosure abandonment on property owners, local authorities, and other interested parties, and minimizes any potential adverse effects (e.g., fair lending concerns) to these parties and the communities where the properties are located.
7. Determine whether the organization has incorporated its compliance responsibilities under the abandoned foreclosure guidance into its operations, particularly with respect to its foreclosure notice procedures, and with respect to requiring third-party foreclosure service providers to incorporate these compliance activities as well.
8. Determine whether the organization has conducted training for appropriate personnel on the abandoned foreclosure guidance, with particular emphasis on the adverse effects (e.g., fair lending concerns) of abandoned foreclosures on property owners, local authorities, and neighborhoods.
9. Determine whether the organization has incorporated routine reviews for compliance with the organization's policies and procedures for abandoned foreclosures into its compliance monitoring program.
10. Discuss findings with organization management and obtain any necessary commitment for corrective action. Assess whether these actions will address the noted deficiencies and weaknesses and, if not, determine whether supervisory action is necessary.