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Highlights

Highlights of [GAO-08-60](#), a report to Ranking Member, Subcommittee on Economic Opportunity, Committee on Veterans' Affairs, House of Representatives

Why GAO Did This Study

In 2003, the Department of Veterans Affairs (VA) significantly revised its in-house approach to managing and selling properties that become subject to foreclosure proceedings due to defaults by veterans on mortgages guaranteed by the department. VA contracted this function out to a private firm—Ocwen Financial Corporation (Ocwen)—after determining that doing so would increase the program's efficiency. VA oversees the Ocwen contract, which terminates in 2008, through onsite property inspections and other means.

GAO was asked to (1) describe VA's inspection and other oversight findings and (2) evaluate VA's overall contract oversight program to determine whether any lessons can be learned prior to the implementation of the next contract in 2008.

Among other steps, GAO reviewed VA inspection reports, accompanied VA staff on visits to three states, interviewed VA and Ocwen officials, and compared VA's procedures to those of other organizations that manage foreclosed properties.

What GAO Recommends

In designing a new property management contract scheduled for implementation in 2008, GAO recommends that VA ensure that it can obtain real-time data and impose penalties for unsatisfactory performance. In written comments on a draft of this report, VA agreed with these recommendations.

To view the full product, including the scope and methodology, click on [GAO-08-60](#). For more information, contact Yvonne D. Jones, 202-512-8678, jonesy@gao.gov.

DEPARTMENT OF VETERANS AFFAIRS

Actions Needed to Strengthen VA's Foreclosed Property Management Contractor Oversight

What GAO Found

VA inspections of foreclosed properties managed by Ocwen have identified a substantial number of deficiencies, such as failure to secure doors and windows, remove trash and debris, maintain lawns, and make needed repairs. GAO observed generally similar conditions in visits with VA realty specialists in Oklahoma, Michigan, and North Carolina, which may have reduced the marketability of the affected properties. VA also has not been satisfied with Ocwen's performance in selling properties in the shortest time possible and at price levels established in the contract. In response, Ocwen officials have raised concerns about the fairness of certain VA contractual requirements and oversight procedures.

While VA has made a committed effort to oversee the contractor's performance, its overall capacity to do so is significantly limited compared to two government-sponsored enterprises (GSE), Fannie Mae and Freddie Mac, which manage large inventories of foreclosed properties. Unlike the GSEs' information systems, for example, VA's system does not include real-time property maintenance and repair information, including expense data. Without this data, VA is not able to fully assess the quality of property maintenance and repairs, the reasonableness of related expenses, and take corrective action on a timely basis to correct deficiencies. VA's contract with Ocwen also does not include sufficient authority for the department to impose penalties for unsatisfactory performance in key areas, such as property maintenance.

Condition of a Lawn at a VA Property in Michigan



Source: GAO.