

To: Lenders and Other Participants in the VA Loan Guaranty Program

Subject: Transmittal of Change 3 to VA Pamphlet 26-7, Revised, VA Lender's Handbook

Purpose Enclosed is Change 3 to VA Pamphlet 26-7, Revised, VA Lender's Handbook, Guaranty of Loans to Veterans. Changes to Current Issues, Chapters 1, 2, 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 15, 16 and Appendices A and C are described below. The material that has been added, revised, moved or otherwise changed is highlighted.

Changes

Current Issues

- Section CI.02 adds the regulatory reference for program participant sanctions based on misleading advertisements.
- Section CI.07 has been added to provide general information on Electronic Data Interchange (EDI). This new section provides information on the benefits of EDI, different available EDI technology and how to start using EDI.

Chapter 1

- Section 1.05 clarifies the approval of automatic authority for non-supervised lenders, eliminating requirements for lenders to maintain a presence in states where they close VA loans.

Chapter 2

- Overview has been changed to update page numbers
- Section 2.01 has been changed to include a reference to the Automated Certificate of Eligibility (ACE).
- Section 2.02 updates the amount of additional entitlement from \$14,750 to \$24,000 and a reference to the ACE system has been added.
- Section 2.03, a typographical error referring to the name for VA Form 26-1880, Request for a Certificate of Eligibility, and part D of that form have been corrected. General information about Internet availability of the ACE system has been added.

Chapter 3

- Section 3.01 updates the amount of additional entitlement from \$14,750 to \$24,000 with maximum available entitlement of \$60,000.
- Section 3.02 has been changed to rearrange the format of the first paragraph.

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Changes
(continued)

Chapter 3, continued

- Section 3.03 has been changed to remove the reference to GNMA VA loan limitations. This section has been further modified to remove the reference to Certificate of Reasonable Value.
- Section 3.04 updates the amount of additional entitlement from \$14,750 to \$24,000 with maximum available entitlement of \$60,000.
- Section 3.05 includes additional language regarding spousal occupancy.
- Section 3.11 adds reference to use of EDI.

Chapter 4

- Overview has been changed to correct page numbers.
- Section 4.02 adds reference to acceptance of faxed and Internet documents for verification of employment.
- Section 4.04 adds reference to acceptance of faxed and Internet documents for verification of assets.
- Section 4.05 adds reference to deferred student loans.
- Section 4.08 changes the documentation guideline for automated underwriting cases requiring direct verification of mortgage debts on refer loans and requiring pay stubs covering 1 full month of employment. This section has been further modified to remove an incorrect section reference.

Chapter 5

- Exhibits 5-A and 5-B have been removed. These forms are available at <http://www.vba.va.gov/pubs/homeloanforms.htm>.

Chapter 6

- Section 6.01 has been changed to correct a typographical error referring to the name of VA Form 26-1880. The reference to “date of application” has been removed; this reference was missed in the previous handbook change.
- Section 6.02 has been changed to correct a typographical error referring to the name for VA Form 26-1880.

Chapter 7

- Section 7.01 updates the amount of additional entitlement from \$14,750 to \$24,000 and the maximum guaranteed loan amount from \$203,000 to \$240,000.
- Section 7.02 has been changed to permit lenders to offer “floating” interest rates on construction to permanent home loans.

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Changes
(continued)

Chapter 9

- Section 9.01 has been changed to incorporate a change in the law affecting the substantial wording of the assumption clause.

Chapter 10

- Overview has been updated to change the title of sections 10.03 and 10.09 to “The Appraisal System,” and “Proposed or Under Construction.” Page numbers have also been changed to correct a formatting error.
- Section 10.03 has been changed to update references from “The VA Assignment System” to “The Appraisal System (TAS)”.
- Section 10.04 has been changed to incorporate a note for LAPP lenders to process all appraisal requests using LAPP. This section has been changed to update references from “The VA Assignment System” to “The Appraisal System (TAS)”. This section has been changed to incorporate information for LAPP lenders to provide their e-mail address in Item 5 of the appraisal request in order to receive the report e-mailed to them. This section has also had a number of syntax and typographical errors corrected.
- Section 10.09 has been changed to include a table for determination of required warranty for properties that are proposed or under construction.
- Section 10.10 has been changed to include a note describing the acceptability of HUD Form 92541. This section has also been updated to correct typographical and reference errors as well as an error of omission in the Geological and Soil Stability subparagraph.
- Section 10.12 has been changed to address problems with payment of appraisal fees and assessed late charges and increased allowable compliance inspection fee from \$65 to \$100.

Chapter 11

- Section 11.01 has been updated to reference “Notices of Value” based on the creation of The Appraisal System (TAS).
- Section 11.03 has been changed to reference timeliness of liquidation appraisals and how a fee appraiser should approach a property that does not appear to be eligible for the VA home loan program.
- Section 11.04 has been changed to address the electronic submission of appraisal photographs.
- Section 11.05 has been updated to explain how appraisers should submit appraisal reports using electronic media and how to submit files when the appraiser has been exempted from use of electronic media requirements.
- Section 11.07 has been changed to delete the requirement for a time adjustment explanation.
- Section 11.08 has been changed to delete the requirement for the time adjustment addendum in the sales comparison analysis section.

Changes
(continued)

Chapter 11, continued

- Section 11.09 has been updated to address requirements for potential environmental problems.
- Section 11.10 has been changed to address placing the estimate of a condominium's remaining economic life in the "Comments" Section of FNMA Form 1073.

Chapter 12

- Section 12.01 has been changed to add the word "and" for exemption of Minimum Property Requirements.
- Section 12.03 has been changed to correct a grammatical error.
- Section 12.08 has been changed to include the permissibility of springs or cisterns where such facilities are customary and the only feasible means of water supply.
- Section 12.09 has been changed to rearrange the format of the Trust Deed subparagraph.
- Section 12.10 has been changed to permit anchoring straps and cables for manufactured homes classified as real estate to be affixed to ground anchors where allowed by local building authorities.

Chapter 13

- Overview has been updated to change the titles of sections 13.04 and 13.09 to "LAPP-Issuing a NOV Other Than the Appraiser's Value Estimate," and "Requesting Changes to the NOV," respectively. Overview has also been changed to include a reference for Lender Appraisal Processing Program (LAPP) lenders to encourage use of LAPP.
- Section 13.02 has been changed to add a reference for timeliness of Staff Appraisal Reviewers. This section is further updated to reflect the posting of local conditions to Regional Loan Centers' web page.
- Section 13.04 has been changed from "Lapp- Related Changes to Appraiser's Value Estimate" to now read "Lapp-Issuing a NOV at Other Than the Appraiser's Value Estimate." This section is changed to increase the variance of the change from 2 percent to 5 percent provided the change is clearly warranted and fully documented. A new subsection has been added to detail "Other Changes."
- Section 13.05 has been changed to add references to TAS when completing and generating a Notice of Value (NOV).
- Section 13.06 has been changed to update where to locate information on the Energy Efficient Mortgage program. This section is additionally changed to incorporate avenues for resolution to disagreements with the fee appraiser over repair recommendations. Additionally, errors in references to sections and exhibits have been updated.
- Section 13.07 has been updated to change references from "CRV" to "NOV," based on the creation of TAS.

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Changes
(continued)

Chapter 13, continued

- Section 13.09 has been updated to change the title of this section to “Requesting Changes to the NOV”. Changes have also been made in the following subparagraphs: “How to Request a Change”, “Submission of Real Estate Market Data”, “Processing Change of NOV Request”, “Appraiser’s Role”, “VA’s Role” and “Lender’s Role.”

Chapter 14

- Section 14.01 has been changed to add subparagraph “Inspection Report Form.”
- Section 14.06 subparagraphs have been renamed: “Receipt of Inspection Reports”, “Use of Inspection Reports”, and “Retention of Inspection Reports.” The first subparagraph has been created to provide the compliance inspector direction on where to submit an inspection report.
- Section 14.07 has been changed to add the form name for VAF 26-1844. This section has been changed to provide for VA approval of changes made on VAF 26-1844 by issuing an amended NOV. Also changes have been made to notification process of the amended NOV.

Chapter 15

- Overview has been changed to correct page numbers.
- Section 15.07 has been updated to change “CRV” to “NOV”. This section has also been changed to require LAPP lenders to supply a detailed explanation when an eligible property is not processed by the lender.
- Section 15.08 has been changed to correct section references.

Chapter 16

- Overview has been changed to update references from “The VA Assignment System” to “The Appraisal System (TAS).”
- Section 16-A.03 has been changed to add a reference to Section 16-A.02.

Appendix A

- Appendix A has been updated to reflect recent VA office changes due to consolidation.

Appendix C

- Appendix C has been removed. Please use <https://www.pay.gov/va/> to access the new Internet based Funding Fee System and system guide.

**Additional
Copies**

Additional copies may be downloaded from the Internet (see section CI.01).

Continued on next page

**VA Lender's
Handbook
Changes**

VA Pamphlet 26-7, "VA Lender's Handbook, Revised" is changed as follows:

- **Pages CI-1 through CI-4:** Remove these pages and substitute pages CI-1 through CI-4 attached.
- **Pages CI-13:** Add page CI-13 attached.
- **Pages 1-17 and 1-18:** Remove these pages and substitute pages 1-17 and 1-18 attached.
- **Pages 2-1 through 2-22:** Remove these pages and substitute pages 2-1 through 2-24 attached.
- **Pages 3-1 and 3-2:** Remove these pages and substitute pages 3-1 and 3-2 attached.
- **Pages 3-5 through 3-8:** Remove these pages and substitute pages 3-5 through 3-8 attached.
- **Pages 3-11 through 3-14:** Remove these pages and substitute pages 3-11 through 3-14 attached.
- **Page 3-25 and 3-26:** Remove these pages and substitute pages 3-25 and 3-26 attached.
- **Page 4-1 and 4-2:** Remove these pages and substitute pages 4-1 and 4-2 attached.
- **Page 4-9 and 4-10:** Remove these pages and substitute pages 4-9 and 4-10 attached.
- **Page 4-29 and 4-30:** Remove these pages and substitute pages 4-29 and 4-30 attached.
- **Page 4-35 and 4-36:** Remove these pages and substitute pages 4-35 and 4-36 attached.
- **Page 4-51 through 4-54:** Remove these pages and substitute pages 4-51 through 4-54 attached.
- **Page 5-23 and 5-24:** Remove these pages. There is no replacement.

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**VA Lender's
Handbook
Changes,
(continued)**

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- **Page 6-13 through 6-20:** Remove these pages and substitute pages 6-13 through 6-19 attached.
 - **Page 7-5 through 7-10:** Remove these pages and substitute pages 7-5 through 7-10 attached.
 - **Page 7-13 and 7-14:** Remove these pages and substitute pages 7-13 and 7-14 attached.
 - **Page 9-1 and 9-2:** Remove these pages and substitute pages 9-1 and 9-2 attached.
 - **Page 10-1 through 10-33:** Remove these pages and substitute pages 10-1 through 10-32 attached.
 - **Page 11-1 through 11-4:** Remove these pages and substitute pages 11-1 through 11-4 attached.
 - **Page 11-7 through 11-10:** Remove these pages and substitute pages 11-7 through 11-10 attached.
 - **Page 11-13 through 11-16:** Remove these pages and substitute pages 11-13 through 11-16 attached.
 - **Page 12-3 and 12-4:** Remove these pages and substitute pages 12-3 and 12-4 attached.
 - **Page 12-7 and 12-8:** Remove these pages and substitute pages 12-7 and 12-18 attached.
 - **Page 12-15 and 12-16:** Remove these pages and substitute pages 12-15 and 12-16 attached.
 - **Page 12-21 and 12-22:** Remove these pages and substitute pages 12-21 and 12-22 attached.
 - **Page 13-1 and 13-2:** Remove these pages and substitute pages 13-1 and 13-2 attached.
 - **Page 13-5 and 13-6:** Remove these pages and substitute pages 13-5 and 13-6 attached.
 - **Page 13-9 through 13-12:** Remove these pages and substitute pages 13-9 through 13-12 attached.

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**VA Lender's
Handbook
Changes,
(continued)**

- **Page 13-15 through 13-18:** Remove these pages and substitute pages 13-15 through 13-18 attached
- **Page 13-23 through 13-28:** Remove these pages and substitute pages 13-23 through 13-28 attached
- **Page 14-3 and 14-4:** Remove these pages and substitute pages 14-3 and 14-4 attached.
- **Page 14-13 through 14-17:** Remove these pages and substitute pages 14-13 through 14-17 attached.
- **Page 15-1 and 15-2:** Remove these pages and substitute pages 15-1 and 15-2 attached.
- **Page 15-15 through 15-20:** Remove these pages and substitute pages 15-15 through 15-21 attached.
- **Page 16-1 and 16-2:** Remove these pages and substitute pages 16-1 and 16-2 attached.
- **Page 16-A-9 and 16-A-10:** Remove these pages and substitute pages 16-A-9 and 16-A-10 attached.
- **Page A-1 through A-11:** Remove these pages and substitute pages A-1 through A-3 attached.
- **Pages C-1 through C-23:** Remove these pages. There is no replacement.

Keith Pedigo, Director
Loan Guaranty Service

Current Issues

Overview

In this chapter This chapter contains the following topics.

Topic	See Page
CI.01 Electronic Publication of Lender's Handbook	CI-2
CI.02 Misleading Advertisements	CI-3
CI.03 Automated Underwriting	CI-5
CI.04 Home Mortgage Disclosure Act (HMDA)	CI-6
CI.05 VA Restructuring of the Loan Processing Function	CI-10
CI.06 Modified Guaranty Submission Procedure	CI-11
CI.07 Electronic Data Interchange	CI-13

CI.01 Electronic Publication of Lender's Handbook

Which Publications Are Available Electronically?

VA Pamphlet 26-7, VA Lender's Handbook, along with H26-94-1, VA Servicing Guide, are now available electronically on the Internet. Changes to the handbook and Servicing Guide will be available on the Internet when signed. Lenders are strongly encouraged to begin accessing these publications electronically.

Excerpts from certain Loan Guaranty circulars beginning in 1996 are also available electronically. Circulars contain information about changes to VA policies and/or procedures and information that regional offices are required to release to lenders and/or servicers in their area. Circulars, which only discuss internal VA procedures, are not included.

Internet Address

The Internet address is: <http://www.homeloans.va.gov/lenders.htm>.

Commercial Services

There are also commercial services distributing VA documents electronically. For example, the Mortgage Resource Center (800-848-4904) offers them on diskettes for those without access to the Internet as well as over the Internet (<http://www.allregs.com>). They can notify lenders by electronic mail when lender's handbook changes or circulars are issued.

CI.02 Misleading Advertisements

Policy

The Department of Veterans Affairs always strives to provide all veterans the most up-to-date and pertinent information about their benefits. Toward that end, all appropriate efforts by lenders to further educate or remind veterans about their home loan benefit and the lender's availability to assist the veteran in obtaining the benefit is appreciated. However, it is inappropriate to direct any information about benefits to veterans which is in any way misleading.

It must be clearly understood that VA has a very specific mission to serve veterans, who are declared by Congress to be a "special class of citizen," and veterans rely on VA to provide dependable service and reliable information concerning their benefits.

Any action on the part of lenders or other program participants which jeopardizes VA's credibility with veterans or induces veterans to obtain loans which are clearly not in their best interests would be viewed by VA as actions which are detrimental to the best interests of veterans. If such a determination is made, grounds for suspension from participation in the VA Loan Guaranty Program could be established.

Examples

Example 1:

In increasing numbers, VA has been receiving inquiries and complaints from veterans concerning advertisements and solicitations they have received from lenders which state that VA has a new program to refinance their VA loan and lower their interest rate, an Interest Rate Reduction Refinancing Loan (IRRRL).

The IRRRL program has been available to veterans since the enactment of The Veterans' Disability Compensation and Housing Benefits Amendments of 1980 (Public Law 96-385).

In addition, many of these solicitations suggest that the lender has some special relationship with VA that enables **only** them to offer this loan opportunity. Some even clearly attempts to give the impression that the "letter" the veteran received came from VA.

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CI.02 Misleading Advertisements, Continued

Examples
(continued)**Example 2:**

Another unacceptable advertising approach that some lenders have been using is to invite veterans to “skip” payments and refinance their loan. It generally gives the appearance that VA condones skipping payments and rolling them into the new IRRRL. This is not the case.

It is irresponsible to suggest to any mortgagor that this program encourages skipping payments, or that this is an appropriate means of getting around the prohibition against receiving cash from the transaction.

Any advertising that promotes skipping payments as a means of obtaining cash for other purposes is unacceptable.

**Lender
Responsibility**

VA encourages all lenders to continue offering VA financing to all eligible and qualified veterans, and it is recognized that mortgage lending is a competitive industry. However, VA insists that lenders refrain from any and all practices which might mislead veterans into actions which are contrary to their own best interests.

If your firm has been engaging in such advertising, or is considering doing so, VA strongly recommends that anything in your promotional material which is in any way inaccurate or misleading be deleted. If there is uncertainty about the accuracy or propriety of the advertisement or solicitation, please consult with the appropriate local VA office or the Loan Policy staff at VA Central Office at (202) 273-7368.

Sanctions

Sanctions of program participants for violations of regulations are set forth in 38 CFR part 44. Refer to Chapter 17 for additional information on sanctions of program participants.

[\[Public Law 96-385\]](#)

CI.07 Electronic Data Interchange

Paperless Guaranty Processing

Electronic Data Interchange (EDI) enables participating lenders to electronically submit a loan to VA for guaranty AND receive an electronically generated Loan Guaranty Certificate (LGC).

Lenders benefit from this type of processing in many ways, including:

- Quicker receipt of the LGC (48 hour turn around)
 - No need to mail a paper package (unless selected for an audit review)
 - Ability to submit loans for guaranty virtually anytime
 - No need to complete the Loan Summary Sheet, VAF 26-0286
 - Ability to deliver final documents to investors quickly, enabling investors to purchase pool loans faster which reduces costs of carrying the loan.
-

Electronic Data Interchange for Small and Medium Sized Lenders

C.C. Pace Systems, a technology consulting firm specializing in business solutions for the mortgage industry collaborated with VA to develop Loan Guaranty Express (LGXpress).

LGXpress is easy to implement and can offer time-saving and money-saving process improvements for some small to medium sized lenders.

Getting Started

To take advantage of EDI, please contact Mr. Steve Varlas at lgysvarl2@vba.va.gov.

To obtain more information on LGYXpress, please contact C.C. Pace LGXpress Coordinator at cpichette@ccpace.com. Additional information is also available on the C.C. Pace website at www.ccpace.com

1.05 How a Nonsupervised Lender Applies for Automatic Authority, Continued

Application Checklist

Figure 1-C (at the end of this chapter) provides a quick-reference checklist of application materials and requirements.

Nationwide Authority

All lenders who have been approved by VA for automatic authority may use this authority on a nationwide basis.

Notification of VA Decision

The VA office of jurisdiction reviews the application materials submitted, writes comments and makes a determination regarding the lender's qualifications. The office then sends the lender written notice of its decision and, if approved, any conditions attached to its automatic authority.

Lenders are expected to use their automatic authority to the maximum extent possible.

Note: Loans submitted for prior approval that are **not** required to be submitted for prior approval **must** include a written explanation from the underwriter.

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1.05 How a Nonsupervised Lender Applies for Automatic Authority, Continued

Probationary Period

The lender will be subject to a probationary period of one year, during which the VA offices to which it submits loans will carefully review the quality of the lender's underwriting, completeness of loan submissions, compliance with VA requirements and procedures, and delinquency and foreclosure rates.

- VA may withdraw automatic authority at any time during the probationary period based on poor underwriting and/or consistently careless processing.
 - At the expiration of the probationary period, VA sends the lender written notice of its decision to terminate the probationary period, extend it, or revoke automatic authority.
-

Chapter 2 Veterans' Eligibility and Entitlement

Overview

In this Chapter This chapter contains the following topics.

Topic	See Page
2.01 How to Establish the Applicant's Eligibility for a VA Loan	2-2
2.02 What the Certificate of Eligibility Tells the Lender	2-4
2.03 How to Apply for a Certificate of Eligibility	2-8
2.04 Proof of Service Requirements	2-12
2.05 Basic Eligibility Requirements	2-15
2.06 Restoration of Previously Used Entitlement	2-18
2.07 Misuse of Veteran's Entitlement	2-20
2.08 Certificate of Veteran Status-FHA Loans	2-21
Exhibit 2-A Quick Reference Table for VA Eligibility	2-23

2.01 How to Establish the Applicant's Eligibility for a VA Loan

What is Eligibility?

Eligibility is the veteran's entitlement to VA home loan benefits under the law, based on military service. An eligible veteran must still meet credit and income standards in order to qualify for a VA-guaranteed loan. A lender **cannot** make a VA-guaranteed loan to an ineligible applicant under any circumstances.

The Lender's Role

Before processing a loan for an applicant, the lender must ensure VA has determined the applicant is an eligible veteran. Each application must be evaluated by VA to see if the applicant meets criteria established by law.

It is critical that a potential borrower's eligibility be established early in the loan process. This assures that a lender is working with an eligible party. Delaying the application for eligibility can create the following problems:

- Time and money may have been expended needlessly, if VA determines the veteran is not eligible.
- The loan closing may be delayed pending a final determination, if the veteran's eligibility determination is more complex than normal.

Once VA finds an applicant eligible, VA issues the veteran either

- VA Form 26-8320, Certificate of Eligibility for Loan Guaranty Benefits, or
- VA Form 26-8320a, Certificate of Eligibility for Loan Guaranty Benefits (Reserves/National Guard).

A Certificate of Eligibility is the *only* reliable Proof of Eligibility for the Lender.

Once a Certificate of Eligibility (COE) is received

- there is generally no need to have it updated before loan closing, and
- contact VA if there is some question as to the accuracy of data on the COE.

Continued on next page

2.01 How to Establish the Applicant's Eligibility for a VA Loan, Continued

The Lender's Role
(continued)

Although this chapter discusses some of the basic eligibility criteria, it is **not** intended to provide a lender with all the knowledge necessary to make an eligibility determination; consequently, all the various exceptions and nuances of eligibility are not included. Exhibit 2-A at the end of this chapter provides a quick reference and overview of basic eligibility criteria.

The final eligibility decision is always made by VA.

In all cases in which the applicant does not already have a COE, the applicant, the lender, or an authorized representative acting on the applicant's behalf, should submit a properly completed [VA Form 26-1880, Request for a Certificate of Eligibility](#) [] to VA, even if it appears the applicant is **not** eligible. Additionally, lenders should utilize the Automated Certificate of Eligibility system (*See* Section 2.03) whenever possible.

It is important to allow VA to make a formal determination and, if the applicant is ineligible, to notify the applicant of his or her appeal rights.

2.02 What the Certificate of Eligibility Tells the Lender

Eligibility The lender may rely on a Certificate of Eligibility as proof that a veteran is eligible for a VA home loan.

Amount of Entitlement The amount of available entitlement can be found at the center of the COE in the entitlement section. The maximum available entitlement that can be shown on the COE is \$36,000.

Even though the veteran may use up to \$60,000 of entitlement for certain loans greater than \$144,000, the COE will never reflect the additional \$24,000 in the available entitlement amount shown. Instead, an asterisk by the word "available" refers to a note which explains the additional entitlement.

Amount of available entitlement is the most important item on a COE to a Lender, because VA's guaranty on the loan generally cannot exceed this amount.

An exception is the additional \$24,000 entitlement available on certain loans greater than \$144,000.

If available entitlement shown is less than \$36,000, it is for one of two reasons

- the maximum entitlement has been changed by law since VA issued the COE, or
- the veteran previously used entitlement that has not been restored.

The last four changes in the law which impacted the maximum available entitlement were as follows.

Maximum Entitlement on COE	Beginning Date
\$36,000	February 1, 1988
\$27,500	October 1, 1980
\$25,000	October 1, 1978
\$17,500	December 31, 1974

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2.02 What the Certificate of Eligibility Tells the Lender, Continued

Amount of Entitlement (continued)

If the COE shows available entitlement equal to the maximum in effect on the date the COE was issued or last updated, there is no need to have the COE updated to reflect the current maximum.

The lender can assume the veteran now has \$36,000 available.

If, however, the veteran previously used entitlement which has **not** been restored, available entitlement is reduced by the amount used on the prior loan(s). The lender has two options in this situation:

- Make the loan knowing that VA's guaranty is limited to the amount of available entitlement, or
- Have the veteran apply for restoration of previously used entitlement.

Reference: Section 2.06 for an explanation of how to apply for restoration and under what circumstances it may be granted.

Note: The additional entitlement of up to \$24,000 may be used for certain loans above \$144,000 even if the veteran has no entitlement or partial entitlement. However, in such cases the lack of full entitlement will likely result in lenders receiving less than a 25 percent guaranty from VA. It is the lender's responsibility to ensure they are able to sell their loan on the secondary market.

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2.02 What the Certificate of Eligibility Tells the Lender,

Continued

Conditions Listed On Some Coe Forms Conditions that the lender and veteran must comply with are listed on the COE.

Some COE forms list five conditions with a checkmark box () in front of each condition. VA places a checkmark by any that are applicable. The following table provides the actions a lender should take for each condition, if applicable:

Condition	What to Do
Valid unless discharged or released subsequent to date of this certificate. A certification of continuous active duty as of the date of note is required.	Ensure the veteran is still on active duty before closing the loan. If the veteran is discharged or released prior to loan closing, request a new eligibility determination from VA.
Excluded entitlement previously used for VA LIN _____ as shown herein is available only for use in connection with the property which secured that loan.	If the entitlement used for the prior loan identified in this condition is needed for the proposed loan, ensure the proposed loan will be secured by the same property as the prior loan.
Entitlement has been used for manufactured home purposes. Remaining entitlement for additional manufactured home use is: \$ _____.	If the proposed loan involves a manufactured home, adhere to the entitlement limit indicated.
Not eligible for any loan to purchase a manufactured home unit until veteran disposes of unit purchased with manufactured home loan number VA LIN _____.	If the proposed loan involves a manufactured home, ensure that the veteran has disposed of the unit indicated.
Entitlement previously used for VA LIN _____ has been restored without disposal of the property, under provision of 38 U.S.C. 3702b(4). Any future restoration requires disposal of all property obtained with a VA loan.	This is information for the veteran. The lender need not be concerned if this condition is applicable, as long as the available entitlement shown on the COE is sufficient for the lender's purposes.

Continued on next page

2.02 What the Certificate of Eligibility Tells the Lender,

Continued

**Other COE
Forms**

Other system generated COE forms only display the conditions which apply to the particular veteran.

**ACE
(Automated
Certificate of
Eligibility)**

Note: For COEs processed through ACE please *see* Section 2.03, How to Apply for a Certificate of Eligibility.

2.03 How to Apply for a Certificate of Eligibility

Procedures If the applicant does not already have a Certificate of Eligibility, the lender may assist the veteran in following these procedures:

Step	Action
1	<p>VA Form 26-1880, Request for a Certificate of Eligibility, from the nearest VA Home Loan Eligibility Center, other VA office, or at http://www.vba.va.gov/pubs/homeloanforms.htm.</p> <p>Reference: See Appendix A for a listing of VA offices.</p>
2	<p>Complete the form as thoroughly as possible.</p> <p>Failure to complete necessary items may cause delays.</p>
3	<p>Attach all required documentation to the form.</p> <p>References:</p> <ul style="list-style-type: none"> • Part “D” of the instructions on the back of the form describes the proof of military service needed. • See Section 2.04 for further details on the required proof of military service including circumstances when it may not be necessary.
4	<p>Submit the form and attachments to the appropriate VA Eligibility Center:</p> <ul style="list-style-type: none"> • Los Angeles Eligibility Center, if you live in: Alaska, Arizona, Arkansas, California, Colorado, Hawaii, Idaho, Illinois, Iowa, Kansas, Louisiana, Minnesota, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, Wisconsin or Wyoming. • Winston-Salem Eligibility Center, if you live in Alabama, Connecticut, District of Columbia, Delaware, Florida, Georgia, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, Mississippi, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Puerto Rico, Rhode Island South Carolina, Tennessee, Vermont, Virginia, or West Virginia. <p>Reference: See Appendix A for the addresses of the Eligibility Centers.</p>

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2.03 How to Apply for a Certificate of Eligibility, Continued

Application for Unmarried Surviving Spouses

Certain unmarried spouses of veterans are eligible for the VA home loan benefit (see Section 2.05). If they are applying for the first time, they must complete [VA Form 26-1817, Request for Determination of Loan Guaranty Eligibility-Unmarried Surviving Spouses](#), instead of [VA Form 26-1880](#). They must complete [VA Form 26-1817](#) and forward it to the appropriate VA Eligibility Center.

Note: Eligibility determinations for unmarried surviving spouses may take considerably longer to process than others.

Previously Issued COE is Missing

If the veteran's COE has been lost, stolen or destroyed, the veteran must follow the "Procedures" described in this section to obtain a duplicate (that is, submit a completed request form with required proof of military service).

Processing Time

Again, it is very important that the request for a COE be the first step in the loan process for a veteran who does **not** already have a COE.

VA will make every effort to process requests for a Certificate of Eligibility in a timely manner.

- Most can be processed within 7 days of receipt.
- Cases for which the applicant does not clearly meet the basic eligibility criteria will usually require additional development and longer processing time.

Example: A case involving an applicant who received an "other than honorable" discharge may require VA to request discharge records from the appropriate service department.

ACE (Automated Certificate of Eligibility)

ACE allows lenders to input data about a specific veteran-borrower and obtain an eligibility determination on most cases in a matter of seconds from the Internet.

ACE eliminates completing VA Form 26-1880, [Request for a Certificate of Eligibility](#), mailing it to an eligibility center and waiting for a reply by mail.

Continued on next page

2.03 How to Apply for a Certificate of Eligibility, Continued**Security Monitoring**

The ACE application is intended for use by lenders who have the veteran's permission to obtain an eligibility determination for them. The use of the system will be monitored for security and administrative purposes and accessing the system constitutes consent to such monitoring.

Establishing Eligibility

If Eligibility is established, the lender prints out the certificate to submit with their guaranty package. If eligibility cannot be established, a refer message will instruct the lender to submit a completed VA Form 26-1880 to VA for processing.

If...	...Then...
Eligibility is established,	The lender prints out the COE to be submitted with the guaranty package.
Eligibility is not established,	The lender has the veteran complete form 26-1880. Once completed, the lender should send it and the veteran's proof of service to the Eligibility Center of jurisdiction.
Eligibility is established but the veteran has partial or no available entitlement,	The lender has the veteran complete form 26-1880. Once completed, the lender should send it, the veteran's proof of service and evidence of a paid in full status for the previous loan to the Eligibility Center of jurisdiction.
Eligibility is established but the print out shows no entitlement on a loan that shows paid-in-full status,	The lender has the veteran complete form 26-1880. Once completed, the lender should send it and the veteran's proof of service to the Eligibility Center of jurisdiction for restoration of entitlement processing.

Access Limits for ACE

At this time access to ACE is limited to VA recognized lenders with a valid VA assigned lender identification number.

Continued on next page

2.03 How to Apply for a Certificate of Eligibility, Continued

Accessing ACE Lenders can access ACE by using <http://tas.vba.va.gov/TAS/index.html> and clicking on the ACE link.

Once the ACE link is accessed, lenders will see a brief paragraph about ACE. There will be a link from that paragraph to the actual ACE log-in page. Lenders may choose to bookmark that site. Once logged-in, click on **Requestors** and select which function of ACE to use.

ACE will generally be available 24 hours a day.

Limitations of ACE ACE cannot make all determinations. Some types of cases that cannot be processed through ACE include:

- Persons whose service was or is in the Reserves/National Guard
 - Persons who may have had prior VA loan(s) that went to foreclosure
 - Persons who did not serve the minimum required length of service and were not discharged for an authorized exception
 - Persons who were discharged under conditions other than honorable
 - Persons for which VA has insufficient data to make the determination
 - Persons seeking restoration of previously used entitlement
 - Unmarried surviving spouses
-

Transfer of ACE Generated Certificates of Eligibility

ACE generated COEs cannot be transferred to another lender.

Loan guaranty requests containing an ACE generated COE issued to someone other than the lender or its agent will be returned.

It's important that lenders submitting the loan for guaranty properly complete agent information on VA Form 26-1820, Report and Certification of Loan Disbursement, and VA Form 26-0286, VA Loan Summary Sheet. These documents will be reviewed prior to the return of the loan package.

Lenders who intend to submit a package for guaranty with an ACE generated COE obtained by a third party who is not an agent, the lender, or an affiliate, will then need to obtain an eligibility determination through ACE or conventional means before submitting the package for guaranty.

2.04 Proof of Service Requirements

**Discharged
Veterans
(Regular
Military)**

DD Form 214, Certificate of Release or Discharge From Active Duty, will generally contain all the information needed for VA to make an eligibility determination for persons who served in a regular component of the Armed Forces.

VA will accept originals or legible copies of the DD Form 214.

Persons separated from military service after January 1, 1950 should have received DD Form 214. Persons separated after October 1, 1979 should furnish Copy 4 of DD Form 214 which includes character of service and separation reason. Persons separated from active duty before January 1, 1950 received documentation other than DD Form 214. To be acceptable it should indicate

- length of service, and
 - character of service.
-

**Veterans Still
on Active Duty**

Veterans still on active duty must provide a current statement of service signed by, or by the direction of, the adjutant, personnel office, or commander of the unit or higher headquarters they are attached to. There is no one form used uniformly by the military for a statement of service. While statements of service are typically on military letterhead, some may be computer generated.

The statement of service must clearly show

- veteran's full name
 - Social Security Number (SSN)
 - date of birth
 - the entry date on active duty
 - the duration of lost time, if any, and
 - the name of the command providing the information.
-

Continued on next page

2.04 Proof of Service Requirements, Continued

Discharged Reserve/Guard Members

There is no one form used by the Reserves or National Guard which is similar to DD Form 214.

Discharged members of the Army or Air National Guard may submit NGB Form 22, Report of Separation and Record of Service, or a points statement.

Typically, all members of the Reserves and/or Guard receive an annual retirement points summary which indicates the level and length of participation. The applicant should submit the latest such statement received along with evidence of honorable service.

VA will accept originals or legible copies.

Current Reserve/Guard Members

Individuals who are still members of the Reserves/Guard must provide a statement of service signed by, or by the direction of, the adjutant, personnel office, or commander of the unit or higher headquarters they are attached to. There is no one form used uniformly by the military for a statement of service. While statements of service are typically on military letterhead, some may be computer-generated.

The statement of service must clearly show

- veteran's full name
- Social Security Number (SSN)
- entry date of applicant's Reserve/Guard duty, and
- the name of the command providing the information.

Note: The statement must clearly indicate that the applicant is an "active" reservist and not just in a control group (inactive status).

Continued on next page

2.04 Proof of Service Requirements, Continued

**Assistance in
Obtaining
Required Proof
of Service**

There will be cases where an applicant discharged from service is unable to provide his or her proof of service. If the veteran has been discharged from regular active duty, submission of [VA Form 26-1880](#) to the appropriate Eligibility Center should not be delayed while the veteran attempts to obtain evidence of service since VA may be able to make a determination by referring to internal records. Otherwise, discharged reservists and other discharged vets for whom VA has no internal records should obtain an SF 180, Request Pertaining to Military Records from the nearest Eligibility Center, other VA Office, or at www.vba.va.gov/pubs/forms1.htm. An SF 180 can be used by the veteran to request a copy of his or her DD Form 214 or equivalent.

2.05 Basic Eligibility Requirements

General Rule for Eligibility

A veteran is eligible for VA home loan benefits if he or she served on active duty in the Army, Navy, Air Force, Marine Corps, or Coast Guard after September 15, 1940, and was discharged under conditions other than dishonorable after either

- 90 days or more, any part of which occurred during wartime, or
- 181 continuous days or more (peacetime).

2 Year Requirement: A greater length of service is required for veterans who

- enlisted (and service began) after September 7, 1980, or
- entered service as an officer after October 16, 1981.

These veterans must have completed either

- 24 continuous months of active duty, or
- the full period for which called or ordered to active duty, but not less than 90 days (any part during wartime) or 181 continuous days (peacetime).

Note: Cases involving other than honorable discharges will usually require further development by VA. This is necessary to determine if the service was under other than dishonorable conditions.

Continued on next page

2.05 Basic Eligibility Requirements, Continued**Wartime and Peacetime**

Wartime and peacetime refer to the following periods of service:

Wartime	Peacetime
World War II 9/16/40—7/25/47	Post World War II period 7/26/47—6/26/50
Korean conflict 6/27/50—1/31/55	Post Korean period 2/1/55—8/4/64
Vietnam Era 8/5/64—5/7/75 (The Vietnam Era begins 2/28/61 for those individuals who served in the Republic of Vietnam.)	Post Vietnam period 5/8/75—8/1/90
Persian Gulf War 8/2/90—date to be determined	

Eligibility for Reserves and/or Guard

Members of the Reserves and National Guard who are not otherwise eligible for loan guaranty benefits are eligible upon completion of 6 years service in the Reserves or Guard. The applicant must have been honorably discharged from such service unless he or she is either

- in an inactive status awaiting final discharge, or
- still serving in the Reserves or Guard.

Eligibility for Reserves and Guard expires on 9/30/07.

Eligibility of Spouses of Veterans

Some spouses of veterans may have home loan eligibility. They are

- the unmarried surviving spouse of a veteran who died as a result of service or service-connected causes, and
- the spouse of an active duty member who is listed as missing in action (MIA) or a prisoner of war (POW) for at least 90 days. Eligibility under this MIA/POW provision is limited to one time use only.

Continued on next page

2.05 Basic Eligibility Requirements, Continued

Other Qualifying Service

Congress has periodically granted veteran status to groups other than members of the Army, Navy, Marine Corps, and Coast Guard, such as certain members of the Public Health Service, cadets at the service academies, certain merchant seaman, etc.

Lenders should contact the appropriate VA Eligibility Center for assistance when one of these unique cases is encountered.

Exceptions to Length of Service Requirements

There are numerous exceptions to the length of service requirements outlined in this section. For example, one day of service is sufficient for an individual who is discharged or released from service (regular or Reserve/Guard) due to a service-connected disability.

Because of the complexity and number of exceptions, this chapter does **not** attempt to cover all of them. The exceptions provide another reason to submit a formal eligibility application to VA in all cases, even if it appears the applicant is not eligible.

2.06 Restoration of Previously Used Entitlement

Basic Restoration

Entitlement previously used in connection with a VA home loan may be restored under certain circumstances. Once restored it can be used again for another VA loan. Restoration of previously used entitlement is possible if

- the property which secured the VA guaranteed loan has been sold, **and** the loan has been paid in full, or
 - an eligible veteran-transferee has agreed to assume the outstanding balance on a VA loan and substitute his or her entitlement for the same amount originally used on the loan. The assuming veteran must also meet occupancy, income and credit requirements of the law.
-

Special Restoration Cases

In addition to the basic restoration criteria outlined above, a veteran may obtain restoration of the entitlement used on a prior VA loan under any of the following circumstances:

- the prior VA loan has been paid in full and the veteran has made application for a loan to be secured by the same property which secured the prior VA loan, or

Note: This includes refinancing situations in which the prior loan will be paid off at closing from a VA refinancing loan on the same property.

- the prior VA loan has been paid in full, but the veteran has not disposed of the property securing the loan. The veteran may obtain restoration of the entitlement used on the prior loan in order to purchase a different property one time only. Once such restoration is effected, the veteran's Certificate of Eligibility will indicate the one time restoration. It will also advise that any future restoration will require disposal of all property obtained with a VA loan.
-

Continued on next page

2.06 Restoration of Previously Used Entitlement, Continued

**How to Apply
for Restoration**

The veteran must complete and send [VA Form 26-1880](#), Request for a Certificate of Eligibility, to the appropriate Eligibility Center. If the veteran has evidence of payment in full of any prior loans (HUD-1, settlement statement, etc), a copy should be included. Additionally, any previously issued COEs should be included.

If the veteran is applying for restoration in order to obtain another VA loan on the same property (as described above in "Special Restoration Cases"), the veteran should include a copy of the loan application submitted to the lender along with [VA Form 26-1880](#). Unmarried surviving spouses applying for restoration of entitlement also need to complete [VA Form 26-1880](#) supplying the deceased veterans military service data and VA claims file number.

2.07 Misuse of Veteran's Entitlement

**What
Constitutes
Misuse?**

A basic requirement of the law governing the VA home loan program is that the veteran has a bona fide intention of occupying his or her property as a home. Home loan entitlement is **not** being used properly if the veteran arranges to sell or convey the property to a third party prior to closing the loan.

What to Do

Contact the VA Regional Loan Center with jurisdiction over the loan for advice regarding any case in which there may be a question regarding the legality of entitlement use.

2.08 Certificate of Veteran Status - FHA Loans

General

Section 203(b)(2) of the National Housing Act permits a veteran to obtain slightly better terms than a non-veteran when obtaining Federal Housing Administration (FHA) mortgage financing. Although this involves FHA loans, VA is charged with making the entitlement determination for benefits under this provision. VA will issue a Certificate of Veteran Status, VA Form 26-8261, to any eligible veteran-applicant to use when obtaining an FHA loan.

How to Apply

The lender may assist the veteran in following these procedures:

Step	Action
1	Obtain VA Form 26-8261a, Request for Certificate of Veteran Status, from the nearest VA Eligibility Center. <i>Reference:</i> See Appendix A for a listing of VA offices.
2	Complete the form as thoroughly as possible. Failure to complete necessary items may cause delays.
3	Attach proof of military service to the form. <i>Reference:</i> See Section 2.04 for further details on the required proof of military service.
4	Submit the form and attachments to the appropriate VA Eligibility Center.

Veteran Found Ineligible

Additionally, veterans who apply for VA benefits on [VA Form 26-1880](#) and are found ineligible, may be found eligible for the FHA program. If so, they will be issued an FHA Certificate of Veteran Status concurrent with VA's notice of denial of eligibility for the VA program.

Continued on next page

2.08 Certificate of Veteran Status –FHA Loans, Continued

Qualifications Generally, eligibility may be established through

- active duty in the Armed Forces
- active duty for training in a reserve component of the Armed Forces, or
- active duty or active duty for training in the National Guard or Air National Guard.

The length of service requirements are similar to the requirements for a VA Certificate of Eligibility.

Break in Service

One important distinction between VA and FHA eligibility requirements is

For an FHA Certificate of Veteran Status, a veteran must have been discharged or released under conditions other than dishonorable.

- A VA Certificate of Eligibility can be issued to a veteran still on active duty.
 - An FHA Certificate of Veteran Status cannot be issued to a person who is still serving on active duty and has had no break in service.
-

Exhibit 2-A: Quick Reference Table for VA Eligibility

ERA	Dates	Time Required
WW II	9/16/40—7/25/47	90 days
POST WW II	7/26/47—6/26/50	181 days
KOREAN	6/27/50—1/31/55	90 days
POST KOREAN	2/1/55—8/4/64	181 days
VIETNAM	8/5/64—5/7/75 <i>Note:</i> The Vietnam Era began 2/28/61 for those individuals who served in the Republic of Vietnam.	90 days
POST VIETNAM	5/8/75—9/7/80 5/8/75—10/16/81 9/8/80—8/1/90 10/17/81—8/1/90	enlisted—181 days officers—181 days enlisted—2 years** officers—2 years**
PERSIAN GULF	8/2/90—present	2 years **Note: The veteran must have served 2 years or the full period which called or ordered to active duty (at least 90 days during wartime and 181 during peacetime).

Other Eligible Persons	Time Required
Active Duty Member <i>Note:</i> Certificate only valid while veteran remains on active duty.	90 days (181 during peacetime)
Reserves/Guard	6 years in Selected Reserves.
UNMARRIED SURVIVING SPOUSES	No time requirement. Veteran must have died on active duty or from a service-connected disability.
POW/MIA Spouses	Veteran must have been POW or MIA 90 days.

Application for Unmarried Surviving Spouses. *See* Section 2.05 Basic Eligibility Requirements
Automated Certificate of Eligibility. *See* Section 2.03
Basic Eligibility Requirements. *See* 2-13 thru 2-15
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Chapter 3 The VA Loan and Guaranty

Overview

In this Chapter This chapter contains the following topics.

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3.02 Eligible Loan Purposes	3-5
3.03 Maximum Loan	3-8
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3.11 What Does VA Guaranty Mean to the Lender?	3-24
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3.01 Basic Elements of a VA-Guaranteed Loan

General rules The following table provides general rules and information critical to understanding a VA loan guaranty. Exceptions and detailed explanations have been omitted. Instead, a reference to the section in this handbook which addresses each subject is provided.

Subject	Explanation	Handbook Section
Purpose of Guaranty	To encourage lenders to make VA loans by protecting lenders/loan holders against loss, up to the amount of guaranty, in the event of foreclosure.	3.11
Amount of Guaranty	The lesser of <ul style="list-style-type: none"> • the veteran's available entitlement indicated on the COE (plus up to \$24,000 additional for certain loans over \$144,000), or • the maximum potential guaranty from the maximum guaranty table. (Highest possible guaranty is \$60,000) 	3.04
Maximum Loan Amount	Unlike other programs, VA has no specified dollar amount(s) for the "maximum loan." The maximum loan amount depends upon <ul style="list-style-type: none"> • the reasonable value of the property indicated on the CRV or NOV, and • the lender's needs in terms of secondary market requirements. 	3.03
Down payment	No down payment is required by VA unless the purchase price exceeds the reasonable value of the property, or the loan is a GPM. The lender may require a down payment if necessary to meet secondary market requirements.	3.03
Occupancy	The veteran must certify that he or she intends to personally occupy the property as his or her home.	3.05

Continued on next page

3.02 Eligible Loan Purposes

List of Eligible Loan Purposes

The law authorizes VA to guarantee loans made to eligible veterans only for the following purposes:

- To purchase or construct a residence to be owned and occupied by the veteran as a home
 - the loan may include simultaneous purchase of the land on which the residence is situated or will be situated
 - loans may also be guaranteed for the construction of a residence on land already owned by the veteran (A portion of the loan may be used to refinance a purchase money mortgage or sales contract for the purchase of the land, subject to reasonable value requirements.), and
 - the residential property may not consist of more than 4 family units and one business unit except in the case of certain joint loans. (See Section 7.01 for this exception.)
- To refinance an existing VA-guaranteed or direct loan for the purpose of a lower interest rate.
- To refinance an existing mortgage loan or other indebtedness secured by a lien of record on a residence owned and occupied by the veteran as a home.
- To repair, alter, or improve a residence owned by the veteran and occupied as a home.
- To simultaneously purchase and improve a home.
- To improve a residence owned and occupied by the veteran as the veteran's home through the installation of a solar heating system, a solar heating and cooling system, or a combined solar heating and cooling system, or through the application of a residential energy conservation measure.

These energy efficiency improvement loans can be made in conjunction with any type of VA purchase or refinancing loan.

- To purchase a one-family residential unit in a condominium housing development approved by VA.
- To purchase a farm residence to be owned and occupied by the veteran as a home.

If the loan includes the purchase of farmland, the farmland is appraised at its residential value only. (See Section 11.12.)

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3.02 Eligible Loan Purposes, Continued

Ineligible Loan Purposes

VA cannot guarantee loans made for ineligible loan purposes. Examples of ineligible loan purposes include:

- Purchase of unimproved land with the intent to improve it at some future date (that is, the land purchase is not in conjunction with a construction loan).
- Purchase or construction of a dwelling for investment purposes.
- Purchase or construction of a combined residential and business property, unless.
 - the property is primarily for residential purposes
 - there is not more than one business unit, and
 - the nonresidential area does not exceed 25 percent of the total floor area.
- Purchase of more than one separate residential unit or lot unless the veteran will occupy one unit and there is evidence that
 - the residential units are unavailable separately
 - the residential units have a common owner
 - the residential units have been treated as one unit in the past, and
 - the residential units are assessed as one unit, or
 - partition is not practical, as when one unit serves the other(s) in some respect; for example, common approaches or driveways.

Continued on next page

3.02 Eligible Loan Purposes, Continued

**Cash to
Veteran
Generally Not
an Eligible
Loan Purpose**

Cash to the veteran from loan proceeds is permissible only for certain types of refinancing loans and under very limited circumstances, as follows:

- For IRRRLs, see Section 6.01.
- For cash-out refinancing loans, see Section 6.03.

For other types of refinancing loans and all purchase/acquisition loans, the veteran generally cannot receive cash from loan proceeds. The only exception is the refund of items for which the veteran paid cash, which were subsequently included in the loan amount.

Example: Earnest money can be refunded to the veteran on a no down payment loan.

3.03 Maximum Loan

**Does VA have
Maximum
Loan Amounts?**

Unlike other home loan programs, there are no maximum dollar amounts prescribed for VA-guaranteed loans.

Limitations on VA loan size are primarily attributable to two factors:

1. Lenders who sell their VA loans in the secondary market must limit the size of those loans to the maximums prescribed by GNMA or whatever conduit they use to sell the loans.
[].
2. VA limits the amount of the loan to the reasonable value of the property shown on the [] NOV plus the cost of energy efficiency improvements up to \$6,000 plus the VA funding fee, with the following exceptions.

Exception	Maximum Loan
Interest Rate Reduction Refinancing Loan	<ul style="list-style-type: none"> • Existing VA loan balance, plus • the cost of any energy efficiency improvements up to \$6,000, plus • allowable fees and charges, plus • up to 2 discount points, plus • VA funding fee. <p>(Lenders must use VA Form 26-8923, IRRRL Worksheet, for the actual calculation.)</p>
Regular refinancing loan (cash-out)	<ul style="list-style-type: none"> • 90 percent of the VA reasonable value, plus • the cost of any energy efficiency improvements up to \$6,000, plus • VA funding fee.

Continued on next page

3.04 Maximum Guaranty on VA Loans

Maximum Guaranty Table

The maximum guaranty on a VA loan is the lesser of

- the veteran’s available entitlement (plus \$24,000 for purchase or construction loans or IRRRLs greater than \$144,000), or
- the maximum potential guaranty amount indicated below.

Loan Amount	Loan Type(s)	Maximum Potential Guaranty	Special Provisions
Up to \$45,000	All	50 percent of the loan amount	Minimum guaranty of 25% on IRRRLs
\$45,001 to \$56,250	All	\$22,500	Minimum guaranty of 25% on IRRRLs
\$56,251 to \$144,000	All	40 percent of the loan amount, with a maximum of \$36,000	Minimum guaranty of 25% on IRRRLs
Greater than \$144,000	Must be for: <ul style="list-style-type: none"> • Purchase or construction of a home, or • Purchase of a condominium unit, or • Refinancing with an IRRRL 	25 percent of the loan amount, with a maximum of \$60,000	Cash-out refinances have a maximum guaranty of \$36,000 Minimum guaranty of 25% on IRRRLs
Any	Joint Loans	→	See Section 7.01.
	Energy Efficient Mortgages	→	See Section 7.03.
	Construction loans on which construction is incomplete	→	See Section 7.02.
	Supplemental loans	→	See Section 7.05.

Continued on next page

3.04 Maximum Guaranty on VA Loans, Continued

Maximum Guaranty Table (continued)

Note: The percentage and amount of guaranty is based on the loan amount including the funding fee portion when the fee is paid from loan proceeds.

For the maximum guaranty on loans for manufactured homes that are not permanently affixed (such as, not considered real estate) see 38 U.S.C. 3712 and/or contact VA.

[38 U.S.C. 3712]

3.05 Occupancy

The Law on Occupancy

The law requires a veteran obtaining a VA guaranteed loan to certify that he or she intends to personally occupy the property as his or her home. As of the date of certification, the veteran must either

- personally live in the property as his or her home, or
- intend, upon completion of the loan and acquisition of the dwelling, to personally move into the property and use it as his or her home within a reasonable time.

The above requirement applies to all types of VA guaranteed loans except Interest Rate Reduction Refinancing Loans (IRRRLs). For IRRRLs, the veteran need only certify that he or she previously occupied the property as his or her home.

Example: A veteran living in a home purchased with a VA loan is transferred to a duty station overseas. The veteran rents out the home. He or she may refinance the VA loan with an IRRRL based on previous occupancy of the home.

When Can a Spouse Satisfy the Occupancy Requirement?

Occupancy (or intention to occupy) by the spouse satisfies the occupancy requirement for a veteran who is on active duty and cannot personally occupy the dwelling within a reasonable time; that is, a veteran assigned to an overseas or other remote duty station.

Occupancy by the spouse may satisfy the requirement if the veteran cannot personally occupy the dwelling within a reasonable time due to distant employment other than military service. In these specific cases, consult your Regional Loan Center to determine if this type of occupancy meets VA requirements.

Note: The cost of maintaining separate living arrangements should be considered in underwriting the loan.

For an IRRRL, a certification that the spouse previously occupied the dwelling as a home will satisfy the requirement.

No family member or person other than the veteran's spouse can satisfy the occupancy requirement for the veteran.

Continued on next page

3.05 Occupancy

What is a “reasonable time”?

Occupancy within a “reasonable time” means within 60 days after the loan closing. More than 60 days may be considered reasonable if both of the following conditions are met:

- the veteran certifies that he or she will personally occupy the property as his or her home at a specific date after loan closing, and
- there is a particular future event that will make it possible for the veteran to personally occupy the property as his or her home on the specific future date.

Occupancy at a date beyond 12 months after loan closing generally cannot be considered reasonable by VA.

Occupancy Requirements for Deployed Active Duty Service Members

Single or married servicemembers, while deployed from their permanent duty station, are considered to be in a temporary duty status and able to provide a valid intent to occupy certification. This is true without regard to whether or not a spouse will be available to occupy the property prior to the veteran’s return from deployment.

Occupancy After Retirement

If the veteran states that he or she will retire within 12 months and wants a loan to purchase a home in the retirement location

- verify the veteran’s eligibility for retirement on the specified date, and

Note: Include a copy of the veteran’s application for retirement submitted to his or her employer with the loan submission.

- carefully consider the applicant’s income after retirement.

Note: If retirement income alone is insufficient, obtain firm commitments from an employer that meet the usual stability of income requirements.

Note: Only retirement on a specific date within 12 months qualifies. Retirement “within the next few years” or “in the near future” is not sufficient.

Continued on next page

3.11 What Does a VA Guaranty Mean to the Lender?, Continued

When is a Prior Approval Loan Guaranteed?

A prior approval loan is also guaranteed by VA upon closing (prior to issuance of the LGC) provided that:

- the closed loan matches the proposed loan upon which the Certificate of Commitment was based, and
 - the lender complied with applicable law and regulations.
-

What is Evidence of Guaranty?

Evidence of guaranty is VA Form 26-1899, Loan Guaranty Certificate (LGC), or EDI generated LGC (see Current Issues, CI.07), which represents tangible proof to the lender that VA's guaranty is given in good faith. It is contingent upon

- the veteran, property and purpose of the loan being eligible
- no fraud or material misrepresentation on the part of the lender, and
- the lender's compliance with applicable law and regulations.

For example, VA may deny or reduce payment on a future claim based on the lender or holder's noncompliance whether or not VA has issued evidence of guaranty on the loan.

Total Loss of Guaranty

Willful fraud or material misrepresentation by the lender or holder, or by an agent of either, will relieve VA of liability for payment of any claim on the loan. VA also has no liability in the case of

- forgery on the note, mortgage, loan application, or other loan documents, or
- a Certificate of Eligibility or discharge papers that are counterfeited, falsified, or not issued by the Government.

A holder of a VA loan who acquired the loan without notice or knowledge of fraud or material misrepresentation in procuring the guaranty, will not be denied payment of any claim on the loan by reason of such fraud or material misrepresentation.

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3.11 What Does a VA Guaranty Mean to the Lender, Continued

Partial Loss of Guaranty

A holder of a VA loan who fails to comply with applicable law and regulations may receive only partial payment of a claim if VA's liability increases due to the holder's noncompliance. Material misrepresentation which is not willful has the same consequence.

No claim will be paid on such loan until the amount of any increase in VA's liability is known. The burden of proof is on the holder to establish that VA's increased liability is not due to the holder's noncompliance or misrepresentation.

Examples of noncompliance with applicable law and regulations which may lead to an increase in VA's liability include

- failure to obtain and retain the required lien on property to secure the loan
 - failure to include the power to substitute trustees
 - failure to procure and maintain insurance coverage
 - failure to advise VA as to default
 - failure to provide notice of intention to begin foreclosure action
 - failure to provide notice to VA in any suit or action, or notice of sale
 - improper release, conveyance, substitution or exchange of security
 - lack of legal capacity of a party to the transaction
 - failure to assure that escrowed/earmarked funds are expended in accordance with the agreement, and
 - failure to take into consideration limitations upon the quantum or quality of the estate or property.
-

Chapter 4 Credit Underwriting

Overview

In this Chapter This chapter contains the following topics.

Topic	See Page
4.01 How to Underwrite a VA Guaranteed Loan	4-2
4.02 Income	4-6
4.03 Income Taxes and Other Deductions from Income	4-27
4.04 Assets	4-29
4.05 Debts and Obligations	4-31
4.06 Required Search for and Treatment of Debts Owed to the Federal Government	4-36
4.07 Credit History	4-44
4.08 Documentation for Automated Underwriting Cases	4-50
4.09 How to Complete VA Form 26-6393, Loan Analysis	4-58
4.10 How to Analyze the Information on VA Form 26-6393	4-63
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4.01 How to Underwrite a VA-Guaranteed Loan

VA Underwriting Standards

VA loans involve a veteran's benefit. Therefore, lenders are encouraged to make VA loans to all qualified veterans who apply.

VA's underwriting standards are intended to provide guidelines for lenders' underwriters as well as VA's underwriters. Underwriting decisions must be based on sound application of the underwriting standards, and underwriters are expected to use good judgment and flexibility in applying the guidelines set forth in the following pages.

Basic Requirements

By law, VA may only guarantee a loan when it is possible to determine that the veteran

- is a satisfactory credit risk, and
- has present and anticipated income that bear a proper relation to the contemplated terms of repayment.

VA's underwriting standards are incorporated into VA regulations at [38 CFR 36.4337](#) and explained in this chapter. This chapter addresses the verifications, procedures, and analysis involved in underwriting a VA-guaranteed loan. It provides guidance on how to treat income, debts and obligations, credit history, and so on., and how to present and analyze these items on VA's loan analysis form. It does not deal with every possible circumstance that will arise; therefore, underwriters must apply reasonable judgment and flexibility in administering this important veteran's benefit.

[\[38 CFR 36.4337\]](#)

Lender Responsibility

Lenders are responsible for

- developing all credit information
 - properly obtaining all required verifications and the credit report
 - ensuring the accuracy of all information on which the loan decision is based
 - complying with the law and regulations governing VA's underwriting standards, and with VA's underwriting policies, procedures, and guidelines, and
 - certifying as to compliance with all of the above.
-

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4.02 Income, Continued

Income from Non-Military Employment (continued)

Verification: Alternative Documentation

Alternative documentation may be submitted in place of a VOE if the lender concludes that the applicant's income is stable, reliable, and anticipated to continue during the foreseeable future; that is, if the applicant's income qualifies as effective income.

Two years employment is not required to reach this conclusion.

Alternative documentation consists of:

- pay stubs covering at least the most recent 30-day period
 - *Note:* It is acceptable for Department of Defense civilian employees to provide computer generated pay stubs accessed through E/MSS (Employee Member Self Service).
- W-2 forms for the previous two years, and
- telephone verification of the applicant's current employment.
Document the date of verification and the name, title, and telephone number of the person with whom employment was verified.

If the employer is **not** willing to give telephone verification of applicant's employment or the pay stubs, W-2 forms, faxed documents or the Internet verification are in any way questionable as to authenticity, use standard documentation. Alternative documentation cannot be used.

Pay stubs and W-2 forms may be originals or copies certified by the lender to be true copies of the originals.

Verification: Additional Documentation for Persons Employed in the Building Trades or Other Seasonal or Climate-Dependent Work

In addition to the standard documentation (VOE and pay stub), obtain

- documentation evidencing the applicant's total earnings year to date
- signed and dated individual income tax returns for the previous two years, and
- if applicant works out of a union, evidence of the union's history with the applicant.

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4.02 Income, Continued

Income from Non-Military Employment (continued)

Verification: Fax and Internet

Fax and Internet documentation may be submitted in place of a VOE if the lender concludes that the applicant's income is stable, reliable, and anticipated to continue during the foreseeable future; that is, if the applicant's income qualifies as effective income.

Fax and Internet documentation consists of:

- The same information contained in a standard Verification of Employment.
- And they must clearly identify the employer and source of information.
- Name and telephone number of a person who can verify faxed information.

Lenders are responsible for ensuring the authenticity of the documents. For Faxed Documents, review the "banner" information provided at the top of each page of the fax. For Internet documents, review the information contained on any headers/footers and the banner portion of the downloaded webpage(s). These pages must contain the uniform resource locator (URL) and the date and time printed. The documents should also be reviewed for errors such as incorrect area codes, unreadable names or income, etc....

Analysis: General Guidance

Income analysis is not an exact science. It requires the lender to underwrite each loan on a case by case basis, using:

- judgment
- common sense, and
- flexibility, when warranted.

Analyze the probability of continued employment (that is, whether income is stable and reliable) by examining the:

- applicant's past employment record
- applicant's training, education, and qualifications for his/her position
- type of employment, and
- employer's confirmation of continued employment, if provided.

Two years' employment in the applicant's current position is a positive indicator of continued employment. It is **not** a required minimum and **not** always sufficient by itself to reach a conclusion on the probability of continued employment.

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4.04 Assets

Amount of Cash Required

The applicant or spouse must have sufficient cash to cover

- any closing costs or points which are the applicant's responsibility and are not financed in the loan
- the down payment, if a Graduated Payment Mortgage, and
- the difference between the sales price and the loan amount, if the sales price exceeds the reasonable value established by VA.

VA does **not** require the applicant to have additional cash to cover a certain number of mortgage payments, unplanned expenses, or other contingencies.

However, the applicant's ability to accumulate liquid assets and the current availability of liquid assets for unplanned expenses should be considered in the overall credit analysis.

Verification Requirement

Verify all liquid assets owned by the applicant or spouse to the extent they are needed to close the loan. In addition, verify any liquid assets that may have a bearing on the overall credit analysis; that is, significant assets.

- Use VA Form 26-8497a, Request for Verification of Deposit, as appropriate,
OR original or certified true copies of the applicant's last two bank statements.
OR the borrower's bank statements available to them by Internet or faxed from the depository directly to the lender. In cases where the lending institution uses Internet based verifications, ensure the URL appears on the document.
 - Verifications must be no more than 120 days old (180 days for new construction).
 - For automatically closed loans, this means the date of the deposit verification is within 120 days of the date the note is signed (180 days for new construction).
 - For prior approval loans, this means the date of the deposit verification is within 120 days of the date the application is received by VA (180 days for new construction).
-

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4.04 Assets, Continued

Pending Sale of Real Estate In some cases, the determination that the income and/or assets of a veteran are sufficient to qualify for the loan depends upon the consummation of the sale of presently owned real property.

- Sales proceeds may be necessary to make a down payment or pay closing costs on the VA loan.
- In addition, the lender may want to consider the amount of equity the applicant has accumulated in the property and the extent to which that equity is attributable to the applicant's investment rather than the housing market, in evaluating the applicant's ability to manage assets.

The lender may consider any down payment or costs on the VA loan as provided for by the sale of the property if available information provides a reasonable basis for concluding the equity to be realized from the sale will be sufficient for this purpose.

References:

- See Section 5.04 for prior approval loans which depend upon the sale of property for the borrower to qualify.
 - See Section 5.06 for required loan closing documents.
-

4.05 Debts and Obligations, Continued

Secondary Borrowing

If the applicant plans to obtain a second mortgage simultaneously with the VA-guaranteed loan include the second mortgage payment as a significant debt.

Reference: See Section 9.04 for VA limitations on secondary borrowing.

From an underwriting standpoint, the veteran must **not** be placed in a substantially worse position than if the entire amount borrowed had been guaranteed by VA.

Deferred Student Loan Payments

If student loan repayments are scheduled to begin within 12 months of the date of VA loan closing, lenders should consider the anticipated monthly obligation in the loan analysis. If the borrower is able to provide evidence that the debt may be deferred for a period outside that timeframe, the debt need not be considered in the analysis.

Loans Secured By Deposited Funds

Certain types of loans secured against deposited funds (signature loans, cash value life insurance policies, 401K loans, etc...) in which repayment may be obtained through extinguishing the asset, do not require repayment consideration for loan qualification.

Note: Assets securing these loans may not be included as an asset in the loan analysis.

4.06 Required Search for and Treatment of Debts Owed to the Federal Government

The Search Requirement

There are two separate procedures the lender must follow. Both should be initiated immediately upon receipt of a loan application to avoid delays in closing the loan.

- (1) Ask the veteran and any veteran co-obligors (including spouse if a veteran) if he or she
- is receiving VA disability benefits
 - would be entitled to receive VA disability benefits but for the receipt of retired pay
 - has received VA disability benefits in the past, or
 - is a surviving spouse of a veteran who died on active duty or as a result of a service-connected disability.

If the veteran falls under one of the above categories, follow the procedures discussed under “Debt Related to VA Benefits” below.

- (2) For all applicants and co-obligors (veteran or nonveteran) on all VA loans including Interest Rate Reduction Refinancing Loans (IRRRLs), perform a CAIVRS inquiry.

Reference: See “CAIVRS Procedures” in this section.

Debt Related to VA Benefits

Before processing a loan involving certain veterans, as described in item (1) of “The Search Requirement,” the lender must submit [VA Form 26-8937, Verification of VA Benefit-Related Indebtedness](#), to the VA office where the loan application and/or closed loan package will be sent. VA will complete and return the form to the lender.

- The loan cannot be submitted for prior approval or approved under the automatic procedure until the lender obtains the completed form from VA.
- The lender must submit the completed form with the loan package.

If the form indicates that the applicant receives nonservice-connected pension or has been rated incompetent by VA, the loan cannot be closed automatically. Submit the loan for prior approval.

Continued on next page

4.08 Documentation for Automated Underwriting Cases, Continued

Documentation Guidelines For Credit History Refer to the following table for Documentation guidelines for credit history.

Subject and Reference	Documentation Classification	
	Documentation Guidelines and Reductions for Refer	Additional Documentation Reductions for Accept/Approve
Types of credit reports used in reconciliation (Section 4.07)	Use any of the following if ≤ 120 days old. <ul style="list-style-type: none"> • All in-file reports • Selected in-file reports • Merged credit report • RMCR 	Same as Refer.
Explanation of discrepancies in reported debt (Section 4.05)	No explanation is required	Same as Refer.
Verification of significant nonmortgage debt (Section 4.05)	Obtain direct verification for significant debts not reported on the credit report. <i>Note:</i> Significant means that the debt has a monthly payment exceeding 2% of the stable monthly income for all borrowers.	Same as Refer. <i>Note:</i> Perform manual downgrade to Refer if direct verification reveals more than 1x30 day late payment in the past 12 months for any of the omitted debts.
Rental payment history (Section 4.07)	Provide a 12 month rental history directly from landlord, through information shown on credit report or by cancelled checks.	No verification of rent is required.

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4.08 Documentation for Automated Underwriting Cases, Continued

Documentation Guidelines For Credit History (continued)

Subject and Reference	Documentation Classification	
	Documentation Guidelines and Reductions for Refer	Additional Documentation Reductions for Accept/Approve
Mortgage payment history (Section 4.07)	<p>Obtain direct verification when ratings are not available on mortgages that are any of the following:</p> <ul style="list-style-type: none"> • Outstanding • Assumed • Recently retired <p>A written explanation of mortgage payment history is required for borrowers with more than 1x30 day late payment for all mortgages for the past 12 months.</p>	Perform manual downgrade to Refer for any mortgage debt with more than 1x30 day late payment in the past 12 months.
Account balances (Section 4.07)	If a mortgage or other significant debt is listed on the credit report as past due and was last updated ≥ 90 days, verify current status of <u>past due debt</u> .	Same as Refer, however if rating is currently ≥ 90 days past due, manually downgrade to REFER .
Derogatory credit information (Section 4.07)	Obtain explanation for derogatory credit. Explain assessment of creditworthiness on VA Form 26-6393, Loan Analysis .	No determination of ratios or credit worthiness is required.
Alimony and/or child support payments (Section 4.02)	<p>Provide the following:</p> <ul style="list-style-type: none"> • Proof of deposits on bank statements for three months • Front page and details of support payments from the divorce decree, indicating evidence of at least three years continuance 	Same as Refer.

Continued on next page

4.08 Documentation for Automated Underwriting Cases, Continued

Documentation Guidelines for Borrowers-Not Self Employed

Refer to the following table for documentation guidelines for employment/income for borrowers who are not self-employed.

Subject and Reference	Documentation Classification	
	Documentation Guidelines and Reductions for Refer	Additional Documentation Reductions for Accept/Approve
Employment gaps [1]	No explanation for employment gaps is required if the gaps are <30 days.	No explanation for employment gaps is required if gaps are <60 days.
Verifying current employment for borrowers who are not self-employed (Section 4.02)	<p>Document telephone contact verifying borrower's current employer.</p> <p>Use pay stubs covering at least one full month of employment and contains the following:</p> <ul style="list-style-type: none"> • Year-to-date (YTD) information • Bonus information • Overtime information 	Same as Refer.

Continued on next page

4.08 Documentation for Automated Underwriting Cases, Continued

Documentation Guidelines for Borrowers-Not Self Employed (continued)

Subject and Reference	Documentation Classification	
	Documentation Guidelines and Reductions for Refer	Additional Documentation Reductions for Accept/Approve
Verifying previous employment (Section 4.02)	<p>Use a Verification of Employment (VOE) or any of the following, covering the two year period prior to closing:</p> <ul style="list-style-type: none"> • W-2 Forms • Income information obtained from the IRS via one of the following forms: <ul style="list-style-type: none"> – Form 8821 (or alternate form acceptable to the IRS that collects comparable information) – Form 4506 (or alternate form acceptable to the IRS that collects comparable information) 	<p>No VOE is required if the borrower has been with the same employer for one year and W-2 Forms for one previous year have been collected.</p> <ul style="list-style-type: none"> • No W-2 Forms are required for a borrower on active duty. • No W-2 Forms are required if all of the following are met: <ul style="list-style-type: none"> – Borrower with same employer ≥ 2 years – Employer phone contact verifies the length of employment and current status (still employed) – Borrower not self-employed or commissioned – Bonus, overtime, or secondary income not needed to qualify – Stable monthly income to be determined by using current base pay only (rather than total earnings) – Borrower signs one of the following for the previous two tax years: <ul style="list-style-type: none"> - Form 8821, and - Form 4506.

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6.01 Interest Rate Reduction Refinancing Loans (IRRRLs), Continued

Procedures for Automatic Processing of IRRRLs

An IRRRL can be closed on an automatic basis by any lender (such as, a lender with or without automatic authority to close other types of loans on an automatic basis) in any geographic location.

Exception: For IRRRLs to refinance existing VA loans 30 days or more past due, VA prior approval is needed. See Section 6.02.

A loan must be reported (such as, all documentation submitted) to VA within 60 days of closing. A lender that fails to meet this time limit must provide a written explanation (document #13 below).

To report a loan, submit the following documents to VA in the order listed.

Order	Document
1	Lender's cover or transmittal letter (if used).
2	VA Form 26-0285 , VA Transmittal List.
3	VA Form 26-0286 , VA Loan Summary Sheet .
4	VA Form 26-8320 (or 26-8320a), Certificate of Eligibility, or a request for a duplicate certificate on VA Form 26-1880, Request for a Certificate of Eligibility .
5	VA Form 26-8998, Acknowledgment of Receipt of Funding Fee from Mortgagee, or (if applicable) VA Form 26-0500, Notification to Mortgagee of Funding Fee Shortage, and VA Form 26-8999, Acknowledgment of Receipt of Funding Fee Shortage to Mortgagee, or evidence borrower is exempt. Reference: See Section 8.08 for information on exemptions.
6	Statement signed by the veteran acknowledging the effect of the refinancing loan on the veteran's loan payments and interest rate. <ul style="list-style-type: none"> • The statement must show the interest rate and monthly payments for the new loan versus that for the old loan. • If applicable, the veteran's statement may be combined with the lender's certification that the veteran qualifies for the new monthly payment which exceeds the previous payment by 20 percent or more.

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6.01 Interest Rate Reduction Refinancing Loans (IRRRLs), Continued

Procedures for Automatic Processing of IRRRLs (continued)

Order	Document
7	VA Form 26-8923, Interest Rate Reduction Refinancing Loan Worksheet.
8	VA Form 26-1820, Report and Certification of Loan Disbursement.
9	VA Form 26-8937, Verification of VA Benefit-Related Indebtedness (if applicable).
10	HUD-1, settlement statement.
11	VA Form 26-0503, Federal Collection Policy Notice.
12	Lender's certification that the prior loan was current (not 30 days or more past due) at the time of loan closing.
13	If loan is submitted more than 60 days after loan closing, a statement signed by a corporate officer of the lender which identifies the loan, provides the specific reasons for late reporting and certifies that the loan is current. This statement must be submitted with any late request for issuance of a Loan Guaranty Certificate.
14	Documentation of the cost of energy efficiency improvements included in the loan. For cash reimbursement of the veteran, the improvements must have been completed within the 90 days immediately preceding the date of the loan. <i>Reference:</i> See Section 7.03.
15	Any other necessary documents <i>Reference:</i> See Section 5.06.

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6.02 IRRRL Made to Refinance Delinquent Loan

**Prior Approval
Submission**

Any IRRRL made to refinance a loan that will be 30 days or more past due as of the date of closing, must be submitted for prior approval.

The lender must first obtain sufficient information and perform sufficient analysis to determine that the

- cause of the delinquency has been resolved, and
- veteran is willing and able to make the proposed loan payments.

Submit a written proposal to VA which contains the following information

Item	Information
1	The full name of the veteran and all other parties obligated on the prior loan and to be obligated on the new loan.
2	The VA loan number and month and year of origination of the loan to be refinanced.
3	The name and address of the lender proposing to make the loan.
4	The approximate proposed loan amount, interest rate, and term for the new loan versus the old loan.
5	Discount to be charged, expressed as a percentage of the loan and a dollar amount.
6	Statement signed by the veteran acknowledging his or her understanding of the effect of the refinancing loan on the loan payments and interest rate. The statement must show interest rate and monthly payments for the old loan versus the new loan.

Continued on next page

6.02 IRRRL Made to Refinance Delinquent Loan, Continued

Prior Approval Submission (continued)

Item	Information
7	<p>The appropriate certification concerning occupancy signed by the veteran or the spouse of an active-duty service member. One of the following must be signed.</p> <p>“I have previously occupied the property securing this loan as my home.”</p> <p style="text-align: center;">_____</p> <p style="text-align: center;">veteran’s signature</p> <p>“While my spouse was on active duty and unable to occupy the property securing this loan, I occupied the property securing this loan as my home.”</p> <p style="text-align: center;">_____</p> <p style="text-align: center;">spouse’s signature</p>
8	VA Form 26-8923, Interest Rate Reduction Refinancing Loan Worksheet.
9	VA Form 26-8937, Verification of VA Benefit-Related Indebtedness (if applicable).
10	VA Form 26-8320 (or 26-8320a), Certificate of Eligibility, or, if unavailable, a request for a duplicate certificate VA Form 26-1880, Request for a Certificate of Eligibility .
11	Uniform Residential Loan Application (URLA).
12	Explanation of the reason(s) for the loan delinquency, including appropriate documentation to verify the cause.
13	Documentation to verify that the cause of the delinquency has been corrected.
14	Credit report (in-file credit report is acceptable).
15	Current pay stub and telephone verification of current employment.
16	VA Form 26-6393, Loan Analysis .
17	Documentation of the cost of energy efficiency improvements to be included in the loan, if known. See Section 7.03. For cash reimbursement of the veteran, the improvements must be completed within the 90 days immediately preceding the date of the loan.

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6.03 Cash-Out Refinancing Loans

What is a VA Cash-Out Refinancing Loan?

A cash-out refinancing loan is a VA-guaranteed loan which refinances any type of lien or liens against the secured property. The liens to be paid off may be

- current or delinquent, and
- from any source, such as
 - Tax or judgment liens, and/or
 - VA, FHA, or conventional mortgages.

Loan proceeds beyond the amount needed to pay off the lien(s) may be taken as cash by the borrower for any purpose acceptable to the lender.

A cash-out refinancing loan is limited to 90 percent of the reasonable value of the property.

The loan must be secured by a first lien on the property.

Maximum Loan Amount

The maximum loan amount is 90 percent of the CRV or NOV amount plus the cost of any energy efficiency improvements plus the VA funding fee.

What Fees and Charges can be Included in the Loan?

While only the VA funding fee can be added to the 90 percent limit to increase the loan amount, cash proceeds from the loan may be used to pay allowable fees and charges and discount points.

The total of the following items, if paid from loan proceeds, cannot exceed 90 percent of reasonable value:

- Payoff of liens
 - allowable fees and charges (other than the funding fee)
 - reasonable discount points, and
 - cash to the borrower.
-

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6.03 Cash-Out Refinancing Loans, Continued

Maximum Guaranty	The maximum guaranty on cash-out refinancing loans is \$36,000, even for loans greater than \$144,000. For most other VA-guaranteed loans, the maximum guaranty is \$60,000 on loans greater than \$144,000.
Veteran's Entitlement	The veteran must have sufficient available entitlement for the loan. If an existing VA loan on the same property will be paid off by the refinancing loan, the entitlement used for that existing loan can be restored for purposes of obtaining the new loan.
Occupancy	<p>The veteran must certify that he or she intends to personally occupy the property as his or her home.</p> <p><i>Reference:</i> See Section 3.05 for details.</p>
Automatic or Prior Approval Processing?	Only lenders with authority to close loans automatically may close cash-out refinancing loans automatically. All others must submit these loans for prior approval by VA.
Lender Procedures	<p>Loan processing procedures are virtually the same as for non-refinancing loans. A full appraisal, credit information, and underwriting are required. Generally, follow the procedures described in Chapter 5 of this Handbook.</p> <p>To report loan closing, submit all of the documents required for non-refinancing loans (See Chapter 5) plus a statement signed by the veteran which shows</p> <ul style="list-style-type: none">• the cash proceeds paid• an itemization of the debts paid from loan proceeds, and• the identification of those debts secured by liens of record.

7.01 Joint Loans, Continued

**How to
Underwrite a
Joint Loan**

The following underwriting considerations apply:

Type of Joint Loan	Underwriting Considerations
Veteran/nonveteran joint loan	<p>Veteran's credit must be satisfactory and veteran's income must be sufficient to repay that portion of the loan allocable to the veteran's interest in the property.</p> <p>A different analysis applies to the portion of the loan allocable to the nonveteran. The credit of the nonveteran must be satisfactory. However, the combined income of both borrowers can be considered in evaluating repayment ability.</p> <p>In other words</p> <ul style="list-style-type: none"> • income strength of the veteran may compensate for income weakness of the nonveteran, but • income strength of the nonveteran cannot compensate for income weakness of the veteran in analyzing the veteran's ability to repay his or her allocable portion of the loan.
2 veteran joint loan	<p>Consider the credit and combined income and assets of both parties. Strengths of one veteran related to income and/or assets may compensate for income/asset weaknesses of the other. However, satisfactory credit of one veteran cannot compensate for the other's poor credit.</p>

Continued on next page

7.01 Joint Loans, Continued

How to Calculate Guaranty and Entitlement Use on Veteran/ Nonveteran Joint Loans

Guaranty is limited to that portion of the loan allocable to the veteran's interest in the property.

The lender **must** satisfy itself that the requirements of its investor or the secondary market can be met with this limited guaranty.

Procedure

VA calculates the guaranty as described in the table below.

Step	Action
1	Divide the total loan amount by the number of borrowers.
2	Multiply the result by the number of veteran borrowers who will be using entitlement on the loan. There is usually only one veteran borrower, in which case the result of this Step is the same as the result of Step 1.
3	Calculate the maximum potential guaranty on the portion of the loan arrived at in Step 2 (as if that portion was the total loan). Use the maximum guaranty table in Section 3.04 of this handbook.
4	VA will guarantee the lesser of <ul style="list-style-type: none"> • the maximum potential guaranty amount arrived at in Step 3, or • the combined available entitlement of all veteran-borrowers. If the result of Step 2 is greater than \$144,000, additional entitlement of up to \$24,000 may be added to each veteran's entitlement for use on the loan, if needed.
5	VA makes a charge to the veteran-borrowers' available entitlement in the amount of the guaranty. If more than one veteran is involved, VA divides the entitlement charge equally between them if possible, or, if only unequal entitlement is available, unequal charges may be made with the written agreement of the veterans.

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7.01 Joint Loans, Continued

Examples Veteran/Nonveteran Loans

Borrowers and Available Entitlement	Total Loan Amount	Vet's Portion	Maximum Potential Guaranty on Vet's Portion	Entitlement Charge ----- T=Total
Vet \$36,000 Nonvet \$0	\$100,000	\$50,000	\$22,500	\$22,500
Vet \$36,000 Nonvet \$0	\$120,000	\$60,000	\$24,000	\$24,000
Vet \$27,500 Vet \$36,000 Nonvet \$0	\$108,000	Total for both vets \$72,000	Total for both vets \$28,800	\$14,400 \$14,400 T=\$28,800
Vet \$25,000 Vet \$11,000 Nonvet \$0	\$201,000	Total for both vets \$134,000	\$36,000	\$25,000 \$11,000 T=\$36,000

Quick Reference For Calculation Used	
Step	Action
1	Divide the total loan amount by the number of borrowers.
2	Multiply the result by the number of veterans using entitlement.
3	Calculate the maximum potential guaranty on the portion of the loan arrived at in Step 2, using the maximum guaranty table in Section 3.04.
4	VA will make a charge to entitlement up to the amount arrived at in Step 3. <ul style="list-style-type: none"> • VA will divide the charge equally between multiple veterans if possible. • Add up to \$24,000 per veteran if Step 2 is greater than \$144,000.

Note: The last example on the example table would require a written agreement from the veterans to make unequal charges to their entitlement.

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7.01 Joint Loans, Continued

How to Calculate Guaranty and Entitlement Use on 2 Veteran Joint Loans

As with a non-joint loan, the potential maximum guaranty on a joint loan is calculated based on the total loan amount and cannot exceed \$60,000, even if the available entitlement of the veterans involved adds up to a greater amount.

Procedure

VA calculates the guaranty as described in the table below.

Step	Action
1	<p>Calculate the maximum potential guaranty on the total loan amount.</p> <p>Use the maximum guaranty table in Section 3.04 of this handbook.</p>
2	<p>VA will guarantee the lesser of</p> <ul style="list-style-type: none"> • the maximum potential guaranty amount arrived at in Step 1, or • the combined available entitlement of all veteran-borrowers. <p>If the loan amount is greater than \$144,000, additional entitlement of up to \$24,000 may be added to each veteran's entitlement for use on the loan, if needed.</p> <p>If possible, VA will use this additional entitlement to arrive at equal entitlement charges for the veterans involved.</p>
3	<p>VA will make charges to the veterans' available entitlement which total the maximum guaranty arrived at in Step 1, or the total of their available entitlement if less than the maximum potential guaranty.</p> <p>VA will divide the entitlement charge equally between the veterans if possible, or, if only unequal entitlement is available, unequal charges may be made with the veterans' written agreement.</p> <p>Exception: VA will make the entitlement charge for husband and wife veterans according to their preference; usually charged to one entitlement, taking it out of the realm of a "joint loan."</p>

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7.01 Joint Loans, Continued

Examples Two veteran loans

Veterans and Available Entitlement	Total Loan Amount	Maximum Potential Guaranty	Additional Entitlement Use Per Vet	Total Entitlement Charge Per Vet	Total Guaranty on Loan
Vet 1 \$36,000 Vet 2 \$36,000	\$100,000	\$36,000	\$0 \$0	\$18,000 \$18,000	\$36,000
Vet 1 \$15,000 Vet 2 \$20,000	\$203,000	\$60,000	\$10,375 \$5,375	\$25,375 \$25,375	\$60,000
Vet 1 \$36,000 Vet 2 \$36,000	\$300,000	\$60,000	\$0 \$0	\$25,375 \$25,375	\$60,000
Vet 1 \$23,500 Vet 2 \$8,500	\$80,000	\$32,000	\$0 \$0	\$23,500 \$8,500	\$32,000
Vet 1 \$0 Vet 2 \$0 Vet 3 \$6,500	\$300,000	\$60,000	\$24,000 \$24,000 \$24,000	\$20,000 \$20,000 \$20,000	\$60,000

Quick Reference For Calculation Used	
Step	Action
1	Calculate the maximum potential guaranty on the total loan amount, using the maximum guaranty table in Section 3.04.
2	VA will make a charge to entitlement up to the amount arrived at in Step 1. <ul style="list-style-type: none"> • VA will divide the charge equally between all veterans if possible. • Add up to \$24,000 per veteran if the loan is greater than \$144,000.

Note: The last two examples on the example chart would require a written agreement from the veterans to make unequal charges to their entitlement.

Continued on next page

7.01 Joint Loans, Continued

Certificate of Commitment

For joint loans involving one or more nonveterans

- the loan amount shown on the commitment is limited to the veteran's portion of the loan, and
- the percent of guaranty is based on the ratio of the amount of entitlement the veteran has available to the veteran's portion of the loan.

VA will issue the Certificate of Commitment with a reminder that

- no part of the guaranty applies to the portion of the loan allocated to the nonveteran, and
 - in the event of foreclosure where a loss is sustained, the holder must absorb any loss attributable to the nonveteran's portion of the loan.
-

Loan Guaranty Certificate

The "Amount of Loan" reflects **only** the veteran's portion of the loan.

If more than one veteran used entitlement on the loan, it will reflect the total of **all** portions allocable to those veterans.

For veteran/nonveteran joint loans, the LGC will contain the statement, "the amount of guaranty on this loan is limited to the veteran's portion of the loan."

The lender must satisfy itself that the requirements of its investor or the secondary market can be met with this limited guaranty.

Whereas the whole loan amount will appear on the mortgage security documents; that is, mortgage note or deed of trust, only the veteran's portion is shown on the Certificate of Commitment and the Loan Guaranty Certificate.

Continued on next page

7.02 Construction/Permanent Home Loans

The Basics

VA will guarantee a “construction/permanent home loan,” that is, a loan to finance the construction/purchase of a residence. The loan is closed prior to the start of construction with proceeds disbursed to cover the cost of, or balance owed on, the land, and the balance into escrow. The escrowed monies are paid out to the builder during construction.

The lender must obtain written approval from the borrower before each draw payment is provided to the builder.

This section does not address other construction loans guaranteed by VA; that is, those for the purchase of a residence newly constructed for the veteran by a builder who financed the construction from his or her own resources.

Amortization

The veteran begins making payments on a construction/permanent home loan **only** after construction is complete. Therefore, the initial payment on principal may be postponed up to one year if necessary. The loan must be amortized to achieve full repayment within its remaining term.

Example: If it takes six months to complete construction, the payment schedule for the veteran obtaining a 30-year mortgage must provide for full repayment of the loan in 29 years and six months.

Rather than requiring a balloon payment, it may be preferable to set up equal payments (beginning after construction is complete) which are large enough to repay the loan within the original maturity without a balloon payment.

VA’s amortization requirements that payments be approximately equal and principal be reduced at least once annually apply to construction loans. (See Section 3.09.) However, the final installment requirement is different.

The final installment may be for an amount that does not exceed 5% of the original principal amount of the loan.

Funding Fee and Loan Reporting

The funding fee is due and payable to VA within 15 days of loan closing; that is, it is **not** tied to the commencement or completion of construction. The loan must be reported to VA within 60 days of receipt of a clear final compliance inspection report.

Continued on next page

7.02 Construction/Permanent Home Loans, Continued

**What the
Builder Must
Pay**

On a construction/permanent home loan, the builder is responsible for all fees normally paid by a builder who obtains an interim construction loan including, but **not** limited to

- inspection fees
- commitment fees
- title update fees, and
- hazard insurance during construction.

Note: The veteran may **not** pay any fees which are the builder's responsibility. Fees the veteran can pay are described in Section 8.02.

Interest Rate

The permanent mortgage loan interest rate is established at closing.

Lender's may offer a "ceiling-floor" where the veteran "floats" the interest rate during construction. The agreement must provide that at lock-in, the permanent interest rate will not exceed a specific maximum interest rate yet also permit the borrower to lock-in at a lower rate based on market fluctuations.

Note: The borrower must qualify for the mortgage at the maximum rate.

**Loan Guaranty
Certificate**

Although the loan will normally be considered guaranteed upon closing, the LGC on a construction/permanent home loan will not be issued until a clear final compliance inspection report has been received by VA.

**If Loan
Proceeds not
Fully Disbursed**

If construction is not fully completed and loan proceeds not fully disbursed, guaranty will apply **only** to the proper pro rata part of the loan. To calculate the proper pro rata part of the loan

- take loan proceeds disbursed for construction purposes
 - add any other payments made to the builder by or on behalf of the veteran
 - take the lesser of the above total or 80 percent of the value of that portion of the construction actually completed, and
 - add any loan disbursements made for the purchase of the land on which the construction is situated.
-

Continued on next page

Chapter 9

Legal Instruments, Liens, Escrows and Related Issues

Overview

Introduction This chapter contains information about legal instruments, liens, escrows, and related issues.

In this Chapter This chapter contains the following topics.

Topic	See Page
9.01 Security Instruments	9-2
9.02 Title Limitations	9-5
9.03 Land Sale Contracts and Option Contracts	9-8
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9.06 Liens Covering Community-Type Services and Facilities	9-12
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9.09 Escrow for Postponed Completion of Improvements	9-19
9.10 Hazard Insurance	9-24
9.11 Escrow for Taxes and Insurance	9-27

9.01 Security Instruments

Requirements

Lenders may use any note and mortgage forms they wish for VA loans. VA regulations at [38 CFR 36.4334](#) provide that security instruments used by a lender which are inconsistent with VA regulations in effect on the date the loan is closed will be considered amended and supplemented to conform to the regulations.

[38 CFR 36.4334]

Lenders must ensure that the security instruments they use

- establish the required lien
- comply with the laws and regulations governing VA's home loan program
- comply with applicable state laws, and
- contain the following VA clauses
 - Assumption Approval clause
 - Acceleration clause
 - Funding Fee clause
 - Processing Charge clause, and
 - Indemnity Liability Assumption clause.

If a lender fails to obtain the required lien or otherwise comply with applicable law, VA may reduce or deny liability under its guaranty to the extent that such failure might have prejudiced the rights of the Secretary.

Assumption Approval Clause

The instruments evidencing the loan (note or bond and mortgage or deed of trust, or retail installment contract for manufactured homes) must read substantially as follows:

“THIS LOAN IS NOT ASSUMABLE WITHOUT THE APPROVAL OF THE DEPARTMENT OF VETERANS AFFAIRS OR ITS AUTHORIZED AGENT.”

The loan assumption notice must appear conspicuously on at least one of the security instruments for the loan.

Continued on next page

Chapter 10

Property Eligibility and Appraisal Requests

Overview

Introduction This chapter contains information about

- the eligibility of property to be the security for a VA guaranteed loan, and
 - appraisal requests.
-

In this Chapter This chapter contains the following topics.

Topic	See Page
10.01 Why An Appraisal Is Required	10-2
10.02 Who Can Request an Appraisal	10-3
10.03 The Appraisal System	10-4
10.04 How to Request an Appraisal	10-5
10.05 Types of Property Eligible for Appraisal	10-8
10.06 Properties Not Eligible for Appraisal	10-12
10.07 Other Appraisal Request Restrictions	10-14
10.08 New Construction	10-17
10.09 Proposed or Under Construction	10-19
10.10 Construction Exhibits	10-21
10.11 Conversion of HUD Value Notices for VA Use	10-27
10.12 Fees For Appraisals and Inspections	10-28
Figure 1: Builder Information and Certifications	10-30
Figure 2: VA Appraisal Request Checklist	10-31

10.01 Why An Appraisal Is Required

Value and Condition

An appraisal is required to help ensure that any property which will become the security for a VA-guaranteed loan

- has a value of at least as much as the loan amount, and
 - is in a condition acceptable to VA.
-

10.02 Who Can Request an Appraisal

**Lender
Preferred**

VA prefers that the appraisal be requested by the lender, although it can be requested by any other party to the transaction, provided the appraiser is assigned by VA.

Lenders must ensure that agents and mortgage brokers requesting VA appraisals on their behalf are familiar with the requirements in this chapter.

10.03 The Appraisal System

Purpose of System

The Appraisal System (TAS) allows appraisal requesters to contact VA via the Internet any time of the day or night to obtain VA assignment of a case number and fee appraiser (and construction inspector, if applicable).

Access to and Instructions for Using TAS

The Internet address for TAS is <http://tas.vba.va.gov>

Instructions for use of the system are available on-line.

Problem Solving

Problem with user ID or password or fee panel-related problem?

Contact the VA office of jurisdiction for the property (Appendix A is a list of VA offices).

Technical problem with TAS?

Contact the VA Help Desk in Philadelphia at (215) 381-3050.

No access to the Internet or unable to resolve problem with TAS?

Assignments can be requested on a limited basis by telephone, fax or in writing.

Reference: See Section 10.04 for more information.

10.04 How to Request an Appraisal

Procedure Follow the steps in the table below to request an appraisal. More detailed guidance is provided in Figure 2, VA Appraisal Request Checklist, at the end of this chapter.

Step	Action
1	<p>Ensure that the property is eligible for appraisal and all other appraisal request requirements can be satisfied (Sections 10.05 through 10.10). Contact the VA office of jurisdiction for the property if there are</p> <ul style="list-style-type: none"> • questions about the property’s eligibility, or • if the property is not eligible for appraisal but is already the security for a VA loan. <p>Note: Every property eligible for the Lender Appraisal Processing Program (LAPP) should be processed under LAPP. <i>If a LAPP lender fails to process an eligible property under LAPP, the request for VA guaranty must include a detailed explanation.</i></p>
2	<p>Access TAS per Section 10.03, and provide all necessary information about the case.</p> <p>TAS will:</p> <ul style="list-style-type: none"> • assign <ul style="list-style-type: none"> – a case number (in liquidation cases, this will be the existing VA loan number for the property, as provided by the requester) – an appraiser (since VA is required by law to select the fee appraiser on a rotational basis from a panel maintained by VA), and – an inspector, if appropriate, and • issue a complete VA Form 26-1805-1, VA Request for Determination of Reasonable Value, which includes the above information <p>Note: LAPP lenders and loan holders/servicers who wish to have the appraisal report e-mailed to them must provide an e-mail address in Item 5 of the appraisal request.</p>

Continued on next page

10.04 How to Request an Appraisal, Continued**Procedure** (continued)

Step	Action
3	<p>The same day as the assignment is made e-mail, fax or mail the TAS-generated VA Form 26-1805-1, and any other required documentation, to the appraiser assigned.</p> <p>For liquidation appraisals, include the name and telephone number of the current or last known occupant. If the property is vacant, also include the keys to the property, or sufficient information to enable the appraiser to gain access to the property; for example, the name and telephone number of a local person to contact.</p> <p>If appraised as “<u>Proposed or Under Construction</u>,”</p> <ul style="list-style-type: none"> • ensure that the construction exhibits meet the requirements in Section 10.10 • mark the case number assigned on the outside of each set of the construction exhibits • include a set of the construction exhibits with the appraiser’s VA Form 26-1805-1. This will be considered the VA file copy, and • send the inspector, if assigned, a copy of VA Form 26-1805-1 and a set of the construction exhibits. <p>If the veteran is acting as the general contractor in building a home for his or her own occupancy, include:</p> <ul style="list-style-type: none"> • any construction exhibits needed for appraisal purposes, and • the veteran’s written agreement to pay for any special VA fee inspections that may be needed to ensure that the work meets VA Minimum Property Requirements for existing (not proposed) construction.

Continued on next page

10.04 How to Request an Appraisal, Continued

**If Access to
TAS Is
Unavailable**

If Internet access to TAS is not available, complete Step 1 for the previously listed procedures. Then complete VA Form 26-1805, VA Request for Determination of Reasonable Value. A typed, fully completed form is required for every request, except for the following:

- properties already listed on a valid VA Form 26-1843a, Master Certificate of Reasonable Value (**Reference:** See Section 13.03, Step 6)
- loans for alterations, improvements or repairs of \$3,500 or less (**Reference:** See Section 10.05), or
- partial release of the security for a VA-guaranteed loan (**Reference:** See Section 10.05)

For LAPP Cases, write “LAP” as the prefix for the case number in Item 1 of VA Form 26-1805 and write “LENDER APPRAISAL PROCESSING PROGRAM” in capital letters under the lender’s name and address in Item 5. This lets the appraiser know to forward the appraisal report to the lender, not VA, for processing.

For liquidation cases, write “LIQUIDATION APPRAISAL” in capital letters in Item 28 of VA Form 26-1805. Also include the name and telephone number of the current or last known occupant. If the property is vacant, the request must also include the keys to the property, or sufficient information to enable the appraiser to gain access to the property (such as, the name and telephone number of a local person to contact).

Then telephone the necessary information to the VA office of jurisdiction for the location of the property, or fax or mail VA Form 26-1805 and any exhibits to that office.

Finally, for telephoned or faxed requests

- enter the case number assigned by VA in Item 1 of VA Form 26-1805 and the name of the appraiser (and inspector, if assigned) in Item 43, **and**
 - complete Step 3 in the previously listed procedures.
-

10.05 Types of Property Eligible for Appraisal

**Lender
Responsibility**

If the lender fails to exercise due diligence in determining appraisal eligibility, VA may deny or reduce payment on a future claim based on the ineligibility of the property.

Properties not eligible for appraisal and other appraisal request restrictions are described in Sections 10.06 and 10.07.

**Existing
Construction**

A home which has either been previously owner-occupied or had all onsite and offsite improvements fully completed for one year or more is eligible.

**New
Construction**

Newly completed properties (completed less than one year and never owner-occupied) are eligible if either

- covered by a one-year VA builder's warranty
- enrolled in a HUD-accepted ten-year insured protection plan, or
- built by a veteran, as the general contractor, for his/her own occupancy.

Note: An exception may be made for a veteran who wishes to purchase a new home from a builder who is not more than occasionally involved with VA financing and will not provide either a one-year VA builder's warranty or a ten-year insured protection plan.

Reference: See Section 10.08 for details.

**Proposed or
Under
Construction**

Property is eligible for appraisal prior to construction or during construction, if

- the appraisal is based on proposed construction exhibits, and
- the property is inspected by VA or HUD during construction

Reference: See Section 10.09 for details.

Continued on next page

10.05 Types of Property Eligible for Appraisal, Continued

Manufactured Home Classified as Real Estate

To be eligible for a VA loan term of 30 years, a manufactured home must be

- classified and taxed as real property
- properly affixed to a permanent foundation (Section 12.10)
- substantially conform with VA MPRs (Chapter 12), and
- conform with applicable building code and zoning requirements for real estate.

Reference:

- Section 10.10, *Construction Exhibits*,
 - Section 11.12, *Other Property Types and Situations*,
 - Section 13.06, *notice of Value Conditions and Requirements*, and
 - Section 14.04, *Manufactured Homes Classified as Real Estate*.
-

Other Manufactured Homes

Modular homes are eligible, provided they are covered by a HUD structural engineering bulletin, or constructed to the standards of the State in which the factory is located and receive that State's approval certification. They are delivered to the building site in sections, but are not attached to a chassis supported by wheels. For homes processed as "proposed or under construction. (**Reference:** See "Modular Construction" in Section 10.10)

For traditional manufactured homes (not classified as real estate and attached to a chassis which is supported by wheels), **Reference:** See Title 38 CFR 36.4200 series.

[38 CFR 36.4200]

Continued on next page

10.05 Types of Property Eligible for Appraisal, Continued

**Property to be
Altered/
Improved/
Repaired**

A VA-guaranteed loan may be acquired to alter, improve or repair a property owned and occupied by the veteran as the veteran's home. The property is eligible for appraisal either

- prior to being altered, improved or repaired. (When extensive alterations, improvements or repairs are to be made, VA must determine on a case-by-case basis at the time of the appraisal request which of the construction exhibits in Section 10.10 are required. All work must be inspected, to the extent determined appropriate by VA on a case-by-case basis.), **or**
- after being altered, improved or repaired.

Note: This usually involves a VA-guaranteed loan for refinancing purposes. No construction exhibits or inspections are generally required, if the work was completed prior to the appraisal.

In either situation, all work must be acceptably completed before VA guaranty of the loan.

Reference: See Section 7.03 for more information on energy efficiency-related alterations or repairs.

Continued on next page

10.05 Types of Property Eligible for Appraisal, Continued

Security for Existing VA Loan

Property securing an existing VA loan is eligible for appraisal for the following purposes:

Refinancing:

Either

- cash-out, which requires both an appraisal and a VA notice of value, or
- interest rate reduction only, which requires neither an appraisal nor a notice of value. However, if the new loan balance will exceed the original loan amount by 5% or more, the lender may wish to consider requesting an appraisal.

Partial release of security:

The request must be in writing and include any information that the VA office of jurisdiction considers necessary. A formal appraisal is not required if there is sufficient information for VA staff to determine the reasonable value of the property being released and the value of the security remaining.

Foreclosure:

When the VA loan is in default. A liquidation appraisal should be requested at the time the notice of sale is forwarded to VA, but no later than 30 days prior to the estimated or scheduled sale date. The lender/holder/servicer is responsible for assisting the appraiser in gaining access to the interior of the property.

Reference: See Section 11.13 for more information about interior access.

10.06 Properties Not Eligible for Appraisal

Properties Not Likely to Meet MPRs

Property in a badly deteriorated condition is not eligible for appraisal unless VA agrees there is a reasonable likelihood that it can be repaired to meet VA Minimum Property Requirements (MPRs) prior to loan closing.

Other MPR-related restrictions are outlined in Chapter 12.

Location-Related Problem

Property is not eligible for appraisal if the improvements are or will be located in

- a Special Flood Hazard Area (SFHA) and either
 - it is proposed/under/new construction with elevation of the lowest floor below the 100 year flood level, or
 - flood insurance is not available (**Reference:** See Section 11.12)
 - an area subject to regular flooding for whatever reason, whether or not it is in an SFHA (**Reference:** See Section 11.12)
 - a Coastal Barrier Resources System area (**Reference:** See Section 11.12)
 - an airport Noise Zone 3, if proposed or under construction (**Reference:** See Section 11.12)
 - a transmission line easement involving high-pressure gas or liquid petroleum or high voltage electricity, if any part of the residential structure is located within the easement (**Reference:** See Section 12.07), or
 - an area susceptible to geological or soil instability (earthquakes, landslides or other history of unstable soils), if proposed/under/new construction and the builder cannot provide evidence that either the site is not affected or the problem has been adequately addressed in the engineering design (**Reference:** See Section 10.10).
-

Continued on next page

10.06 Properties Not Eligible for Appraisal, Continued

Condo Not Approved

A condominium must be acceptable to VA before any unit in the project can be eligible for VA loan guaranty.

To avoid an unnecessary appraisal fee, a condominium unit should not be appraised unless there is a reasonable likelihood that VA or HUD will accept the project prior to loan closing.

Reference: See Chapter 16.

Ownership Not Fee Simple

Property involving a less than fee simple ownership (i.e., leaseholds, cooperatives, ground rental arrangements) is not eligible for appraisal without prior VA approval of the specific legal arrangement or project. Submissions to VA Central Office (262A) must include

- details of the ownership arrangement
 - copies of leases or other instruments creating the estate, and
 - recommendations of the VA office of jurisdiction.
-

Other Ineligible Properties

Reference: See Section 10.07.

10.07 Other Appraisal Request Restrictions

No Duplicate Appraisals

No new appraisal can be requested on property which already has a valid VA value determination.

The process for changing notices of value is outlined in Chapter 13.

Builder ID Required

For any property appraised as either “proposed or under construction” or “new construction”, the builder must have a valid builder identification number prior to a VA notice of value being issued.

To obtain and maintain a valid, VA-assigned builder ID, all of the following must be fully-executed, up-to-date and on file at the VA office of jurisdiction over the location of the property:

- VA Form 26-421, Equal Employment Opportunity Certification.
 - VA Form 26-8791, VA Affirmative Marketing Certification.
 - The identifying information and certifications shown in Figure 1 of this chapter, as worded and in the order shown, and either on the builder’s letterhead or attached to a statement on the builder’s letterhead which references it.
-

No Appraisal Due to Sanction

Property is ineligible for VA appraisal if any party of interest to the transaction, other than the purchaser, is debarred Government-wide, or otherwise excluded from participation in the Loan Guaranty program due to a VA-imposed sanction for substantially prejudicing a veteran by either

- failing to correct justified construction complaint items
 - violating VA Minimum Property Requirements
 - deviating from plans and specifications without VA approval
 - failing to honor other contractual obligations on houses previously built and sold with VA financing, or
 - using a sales contract or marketing method or practice which VA considered to be unfair or unduly prejudicial to the veteran involved.
-

Continued on next page

10.07 Other Appraisal Request Restrictions, Continued

No Appraisal Due to Sanction (continued)

When the sanctioned party is a builder, this restriction applies to any property still owned by the builder, including houses under construction and existing houses. VA's refusal to appraise will not be affected by either the fact that

- a fee inspector approved the work on which the sanction was based, or
- the builder changes the company's name or organization or becomes a principal or officer in another organization.

Note: Reference: See Section 17.01. Lenders are responsible for identifying builders on the GSA list. For sanctioned builders not on the GSA list, each VA office of jurisdiction will either

- periodically provide lenders with a list of such builders to check or
 - assume responsibility for ensuring that those builders do not participate in the VA loan guaranty program.
-

Building Code Enforcement

If there are local building authority requirements due to building code enforcement or urban renewal, either

- provide evidence with the appraisal request that those requirement(s) are satisfied, or
- the notice of value will be conditioned to require such evidence.

Reference: See Section 13.06.

Potential Restriction to Veterans Under Contract

During times of heavy VA workload or limited resources, a VA field station may notify lenders that it will temporarily accept only appraisal requests involving a veteran under contract. In that situation, the appraisal request must either

- be accompanied by a copy of the fully-executed purchase agreement, or otherwise clearly identify the transaction with a proposed VA loan, or
 - indicate that the appraisal is for a purpose not affected by this restriction (such as, proposed construction, refinancing, foreclosure, or a loan for alterations/improvements/repairs).
-

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10.07 Other Appraisal Request Restrictions, Continued

Potential “Master” Appraisal Restrictions

During times of heavy VA workload or limited resources and with VA Central Office concurrence, a VA field station may temporarily refuse a builder’s requests for “master” appraisals if experience with that builder or location indicates that a minority of the units will receive VA financing. In that situation, the builder may obtain an individual appraisal on any property sold to a veteran.

With VA Central Office concurrence, a VA field station may also limit the number of

- units in a “master” appraisal to the number which it believes can be successfully marketed during the validity period of the VA value notice, or
 - optional items of equipment or variations from basic house types to be included in a “master” appraisal.
-

If No Inspector Available

In areas where there is no qualified VA or HUD fee inspector, properties cannot be appraised until they qualify as

- “new construction” (*Reference:* See Section 10.08), or
 - “existing construction” (*Reference:* See Section 10.05).
-

10.08 New Construction

Definition Construction Exhibits and Inspections

To be eligible for appraisal as “new construction”, the property must be fully completed or completed except for customer preference items (such as, interior wall finishes, floor covering, appliances, fixtures and equipment, etc.) and those improvements for which escrows are permitted (**Reference:** See Section 9.09). This eliminates the need for construction exhibits.

Note: For properties which do not meet the criteria for appraisal as “new construction”, **Reference:** See Section 10.05 (“Proposed or Under Construction” and “Existing Construction”).

Neither construction exhibits nor VA or HUD inspections during construction are required for properties appraised as “new construction”.

Note: Appraisal without VA or HUD inspections during construction is a privilege available only to builders who routinely provide good quality construction. Builders who are required to obtain VA or HUD inspections during construction will be notified by VA in writing. VA, not lenders, will monitor builder compliance with this restriction.

Construction Warranty

Properties appraised as “new construction” must be covered by either

- a one-year VA builder’s warranty, or
- a ten-year insurance-backed protection plan.

If the builder will provide a one-year VA builder’s warranty, then both of the following will be required

- the veteran purchaser’s written acknowledgment that, “I am aware that VA did not inspect this property during construction and that VA assistance with construction complaints will be limited to defects in equipment, material and workmanship reported in writing during the one-year VA builder’s warranty period.” **Reference:** See Section 13.06, “Not Inspected Acknowledgment.”
 - a one-year VA builder’s warranty on VA Form 26-1859, Warranty of Completion of Construction. **Reference:** See Section 13.06, “Construction Warranty”.
-

Continued on next page

10.08 New Construction, Continued

Construction Warranty, Continued

If the builder will provide a ten-year insurance-backed protection plan, then both of the following will be required

- the veteran purchaser's written acknowledgment that, "I am aware that VA did not inspect this property during construction and that it does not qualify for VA assistance with construction complaints." **Reference:** See Section 13.06, "Not Inspected Acknowledgment".
- evidence of enrollment of the property in a ten-year insured plan acceptable to HUD. **Reference:** See Section 13.06, "Ten Year Insured Protection Plan".

Exception: An exception may be made for a veteran who wishes to purchase a new home from a builder who is not more than occasionally involved with VA financing and will not provide either a one-year VA builder's warranty or a ten-year insured protection plan. In that situation, all of the following will be required:

- the veteran purchaser's written acknowledgment that, "I am aware that this property does not qualify for VA assistance with construction complaints, since it was not inspected by VA during construction. I am also aware that this new property will not be covered by either a one-year VA builder's warranty or a ten-year insured protection plan, as is normally required in this situation."
 - the builder's written certification that, "This company is not more than occasionally involved with VA financing and is aware that this property is being accepted without any VA-required warranty on an exception basis only upon the request of the veteran purchaser. The dwelling was constructed according to standard building practices and is in conformity with all applicable building codes and complies with the energy conservation standards of the 1992 Council of American Building Officials Model Energy Code," **and**,
 - the lender obtains a copy of documentation issued by the local building authority to verify that construction was acceptably completed, such a final inspection or occupancy permit. Where local authorities do not perform building inspections, the builder must certify in writing that "The dwelling was not inspected during construction by any State, county or local jurisdiction."
-

10.09 Proposed or Under Construction

Individual vs. “Master” Appraisals

Properties can be appraised prior to the start or completion of construction either

- individually, or
 - as a group of 5 or more on a “master” appraisal. Each model or house type is appraised at the same time by the same fee appraiser on a separate appraisal report. All of the properties are included on the same *VA Master Certificate of Reasonable Value*.
-

Construction Exhibits

Construction exhibits must be provided with the request to appraise properties as “proposed or under construction”. **Reference:** See Sections 10.04 and 10.10.

Construction Inspections

Properties appraised as “proposed or under construction” must be inspected by VA or HUD during construction (**Reference:** See Chapter 14).

The purpose of the inspection(s) is to help ensure that the property

- is built according to the construction exhibits used in the appraisal, and
- meets VA Minimum Property Requirements for proposed construction (**Reference:** See Section 12.02).

Only a final inspection is required if either

- the property is to be covered by a ten-year insured protection plan (**Reference:** See “Construction Warranty” below), or
- VA can rely on local building authority inspections in lieu of first and second stage VA inspections (**Reference:** See Section 14.03).

Note: VA acceptance of only a final VA or HUD inspection during construction is a privilege available only to builders who routinely provide good quality construction. Builders who are required to obtain a full complement of inspections during construction will be notified by VA in writing. VA, not lenders, will monitor builder compliance with the restriction.

Continued on next page

10.09 Proposed or Under Construction, Continued**Construction
Warranty**

In every case processed as proposed or under construction, the builder must provide the veteran home buyer with a one-year VA builder's warranty on VA Form 26-1859, Warranty of Completion of Construction.

If only a final VA or HUD inspection is made during construction (**Reference:** See "Construction Inspections" above), a ten-year insured protection plan acceptable to HUD is also required (unless the builder provides evidence of local building authority inspections acceptable to VA in lieu of VA first and second stage inspections per Section 14.03).

Reference: See Section 13.06, "Construction Warranty".

**Determining
the Type of
Warranty**

Use the table below to determine the type of warranty required.

When the property is appraised as...	...then...
existing construction	no warranty is required.
new construction	either: <ul style="list-style-type: none"> • 1 year builder's warranty is required, or • a 10 year insured protection plan is required.
proposed or under construction with a full complement of VA inspections	only a 1 year builder's warranty is required.
proposed or under construction (with only a final VA inspection and local inspections are accepted in lieu of VA first and second stage inspections per Section 14.03)	only a 1 year builder's warranty is required.
proposed or under construction (with only a final VA inspection and local inspections are not accepted in lieu of VA first and second stage inspections per Section 14.03)	<ul style="list-style-type: none"> • both a 1 year builder's warranty, and • a 10 year insured protection plan are required.

10.10 Construction Exhibits

General Requirement

Construction exhibits are required for properties appraised as “proposed or under construction”. They are **not** required for properties appraised as either “new construction” or “existing construction.”

Required Exhibits

Each set of proposed construction exhibits must include

- specifications on VA Form 26-1852, Description of Materials, signed and dated by the builder in all cases and by the veteran when one is under contract in an individual case processed as “proposed or under construction”. Other specification formats are also acceptable, provided they are signed and dated by the builder and veteran as described above and are sufficiently detailed for VA appraisal and compliance inspection purposes.
- plot plan which includes the location of the well/septic systems, if applicable.
- all exterior building elevations.
- foundation or basement plan.
- plan of all floors.
- sectional wall details.
- a certification signed and dated by a technically qualified and properly identified individual (such as, builder, architect, engineer, etc.) which states, “I certify that the construction exhibits for (identification of the property by house type, lot, block, subdivision name, etc.) meet all local code requirements and are in substantial conformity with VA Minimum Property Requirements, including the energy conservation standards of the 1992 Council of American Building Officials’ Model Energy Code and the requirement for lead-free water piping.” VA will accept HUD Form 92541, Builder’s Certification of Plans, Specifications and Site, in lieu of this certification.

Note: In most cases for HUD Form 92541 to be acceptable, it must have the identifying information at the top completed, as well as Items 2 and 4 or Items 5, 6, 9, 10, 12 and 13.

Continued on next page

10.10 Construction Exhibits, Continued

Number and Distribution of Exhibit Sets

If inspections during construction are to be made by

- VA, then two sets of construction exhibits are required. **Reference:** See Section 10.04 (Step 3), regarding distribution details.
 - HUD, then only one set of construction exhibits is required. The appraisal requester will include that set with the assignment notice to the appraiser.
-

Reduced-Size Plans

VA highly recommends the use of reduced-size construction drawings to save reproduction, mailing and storage costs for all parties involved. Building plans, elevations and details, traditionally drawn at ¼ inch scale and larger, can be photographically reduced or computer-drawn to be clearly readable on 8½ by 14 inch sheets.

While VA will currently accept 11 by 17 inch sheets, this size is not compatible with standard industry scanner equipment generally available to VA and program participants. Therefore, this size is discouraged and in the future may be eliminated as an option. Other exhibits normally provided in an 8½ by 11 inch format (such as specifications, certifications, etc.) must not be further reduced.

Changes to Exhibits

Reference: See Section 14.07 for information about changing the construction exhibits after they are used for VA appraisal purposes, but prior to loan closing.

10.10 Construction Exhibits, Continued

**“Master”
Appraisals**

In addition to the other requirements in this section, a “master” appraisal request must include **the following:**

- Plat showing the locations of each lot or unit to be included in the appraisal,
 - completed VA Form 26-1843b, Master Certificate of Reasonable Value Worksheet, and
 - Building Program Statement, which includes:
 - total number of dwellings to be built in the project
 - number of dwellings contemplated in the primary construction phase, and anticipated starting and completion dates of that phase
 - arrangements regarding the construction, dedication and maintenance of streets and utilities, and
 - information regarding any special assessments to be assumed by purchaser.
-

**Property to be
Altered/
Improved/
Repaired**

Reference: See Section 10.05.

**Veteran as
Contractor**

Reference: See **Section 10.04, Step 3.**

Continued on next page

10.10 Construction Exhibits, Continued

**Modular
Construction**

In addition to the other requirements in this section, an appraisal request involving modular construction must include either

- evidence of coverage by a HUD structural engineering bulletin, or
 - a certification of approval by the State in which the unit is fabricated. This requirement will be made a condition of the VA value notice if not submitted with the appraisal request.
-

**Manufactured
Home
Classified as
Real Estate**

Any case in which the foundation has not been fully completed and the manufactured home unit installed is considered to be “proposed or under construction.”

In those cases, each set of construction exhibits must include

- specifications for the foundation and a plot plan as required for conventional site-built homes
 - in double-wide homes, a detail of the mating line piers, if applicable
 - a foundation plan showing the location and a cross-sectional detail of the supporting piers. In all cases, include drawings of the foundation anchorage details.
 - a floor plan of the unit and exterior elevation drawings/photographs of the front and rear of the home, unless the unit is physically located on the site to be appraised or the appraiser has access to the unit on the dealer’s lot. These may be provided in the manufacturer’s advertising or technical installation manual.
 - in States or localities that require the underside of the unit to be completely enclosed, details of the perimeter enclosure that comply with those requirements.
 - since site conditions vary considerably from location to location, any revision needed to information provided in the manufacturer’s technical installation manual in order to comply with local requirements.
 - appropriate construction exhibits for any other on-site improvements, such as decks, enclosed patios, garages and carports, etc., to be financed with the loan proceeds.
-

Continued on next page

10.10 Construction Exhibits, Continued

**Manufactured
Home
Classified as
Real Estate
(continued)**

- a certification signed and dated by a technically qualified and properly identified individual (such as builder, architect, engineer, etc.) which states, “I certify that the construction exhibits for (identification of the property by house type, lot, block, subdivision name, etc.) meet all local code requirements and are in substantial conformity with VA Minimum Property Requirements, including the energy conservation standards of the 1992 Council of American Building Officials’ Model Energy Code and the requirement for lead-free water piping.” VA will accept HUD 92541, Builder’s Certification of Plans, Specifications and Site, in lieu of this certification.

Note: In most cases for HUD Form 92541 to be acceptable, it must have the identifying information at the top completed, as well as Items 2 and 4 or Items 5, 6, 9, 10, 12 and 13.

Reference: See Section 12.02 for specific Minimum Property Requirement-related information that could impact what is required in the construction exhibits.

**Geological or
Soil Instability**

In areas that have a history of geological or soil instability, the builder must submit either

- a certification that to the best of the builder’s knowledge and belief, any geological or soil-related hazard has been compensated for in the engineering design of the improvements and no portion of the construction will rest on fill, or
- evidence from a qualified geologist or engineer that the subject site either does not present unusual geological soils-related hazards or such hazards have been compensated for in the engineering design of the improvements.

Qualified geologists are State licensed or are a member of a national or State organization which requires responsibility, experience, education and demonstrated ability in the field of engineering geology.

Continued on next page

10.10 Construction Exhibits, Continued

**If Inspections
to be Made by
HUD**

If HUD will make the inspections during construction, the appraisal request must include

- The construction exhibits required above, except for the certification regarding those exhibits.
- The certification directly above item 38 on VA Form 26-1805.
- A certification by the builder or lender that the construction exhibits submitted to VA, including any HUD-accepted change orders, are identical to those submitted to HUD.
- A copy of the final HUD inspection report countersigned by HUD or a HUD Direct Endorsement underwriter, or a letter from HUD that the property has been completed in accordance with the approved plans and specifications and acceptable change orders, if any. This requirement will be made a condition of the VA notice of value if not submitted with the appraisal request.
- If the final HUD inspection report stipulates that certain incomplete work, such as street improvements, will be completed according to requirements specified by HUD elsewhere, a copy of the documentation that states those requirements must be furnished. In that situation, there must also be a VA-approved escrow agreement and a subsequent VA or HUD re-inspection report or other acceptable evidence of satisfactory completion. The veteran cannot be charged the cost of that re-inspection.

If there is a question about HUD consistency with VA in the interpretation and application of VA/HUD Minimum Property Requirements, the VA field station may impose a VA inspection, at an appropriate inspection stage, in addition to the HUD inspections.

10.11 Conversion of HUD Value Notices for VA Use

Policy Generally, HUD value notices cannot be converted for VA use, since VA is required by law to assign fee appraisers and HUD allows lenders to select appraisers.

There is one exception.

Exception To eliminate duplicative efforts and unnecessary appraisal costs for veterans, VA staff will convert a HUD conditional commitment issued by either HUD staff or a Direct Endorsement lender to a VA Certificate of Reasonable Value (CRV) if **all** of the following requirements are met:

- The appraiser is
 - a VA fee panel member, and
 - not a staff employee of the lender.
- The property
 - was appraised as an individual case (that is, not listed on a valid HUD “master” value determination)
 - did not already have a valid VA value determination on the date of the purchase agreement, and
 - was appraised for HUD purposes and the lender documents a legitimate need to change to VA financing after the appraisal was made. That is, the buyer changed from HUD to VA financing while under contract, or the property is being purchased with VA financing after a contract with a previous buyer requiring HUD financing fell through.
- The lender submits to the VA office of jurisdiction
 - the lender’s written request for conversion, which includes a certification that identifies the property and addresses **each** of the above requirements
 - a completed VA Form 26-1805, Request for Determination of Reasonable Value
 - the HUD value notice and
 - the original appraisal report, including photographs and all other addenda.

VA will list applicable VA requirements and conditions on the CRV.

10.12 Fees For Appraisals and Inspections

Policy The maximum appraisal and inspection fees allowed by each VA field station is based on customary fees for similar services in that station's jurisdiction. Regardless of the amount of the maximum fee, appraisers and inspectors must not charge veterans more than they charge other clients for similar services.

Liquidation Appraisal Fees The appraisal requester will pay the appraiser's fee and the expense will be included in the claim under loan guaranty.

If the borrower attempts to pay the full arrears after the appraisal is obtained, the holder must include the cost of the appraisal in its computation of the total amount delinquent.

"Master" Appraisal Fees Veterans cannot be charged for any portion of a "master" appraisal fee.

Total maximum "master" appraisal fee = (Fee per House Type x Number House Types x Number Appraisers Assigned) + (Fee per Lot x Number Lots) + (Fee per Option x Number Options).

Construction Inspection Fees The builder, sponsor, or lender will pay the inspection fees, which are not to exceed \$100 per inspection unless otherwise specified by the VA field station.

While the veteran can be charged for all regular inspections of an individual property, the veteran **cannot** be charged for re-inspections due to

- the builder's noncompliance with VA requirements
- the builder's failure to provide access to the property or have the work ready for inspection, or
- the inspector's failure to arrive at the appointed time.

Continued on next page

10.12 Fees For Appraisals and Inspections, Continued

Mileage Fee

If a property is located outside of the fee person's normal business area, an additional fee may be charged **only** for that portion of travel beyond the normal business area and at a mileage rate not to exceed that allowed for federal employee travel.

That travel must be by the most direct route and the billing must include a breakdown of the mileage. VA offices will consider adding more fee panel members to provide better coverage in areas where mileage-related fees are excessive.

Fee Payment Problems

VA offices may allow a fee panel member to require payment in advance from a particular appraisal or inspection requester if both

- a regular, ongoing payment problem that is well outside of normal business practices is documented by the fee person, and
- the party responsible for payment fails to reasonably respond to the fee person's written notice about the problem and its possible consequences.

In such cases, VA will review the documentation from the fee appraiser. If in concurrence, VA will contact the requester to discuss and attempt to resolve the problem. If this contact does not resolve the matter, VA will notify the requester that written authority will be sent to all fee appraisers indicating that they are authorized to require advance payment in future cases from this particular appraisal/inspection requester.

Note: Appraisers may not require advance payment from requesters unless they have been given this written authority from VA.

Late Fees

Late fees may be authorized by VA Regional Loan Centers. Fee appraisers must have prior authorization by VA to assess late fees.

Figure 1: Builder Information and Certifications

[on builder’s letterhead]
Builder Information and Certifications
VA Loan Guaranty Program

1. This is to certify that this company:
 - a) Will not use any marketing practices or sales contracts which include features considered by VA to be unfair or prejudicial to veteran-purchasers per Section 9.08 of the VA Lenders Handbook. I understand that the closing of the loan denotes that the builder has determined that the contract is acceptable to VA.
 - b) Will construct every property which is to become the security for a VA-guaranteed loan to substantially conform to applicable building codes, applicable VA requirements and the standards of quality as measured by acceptable trade practices.
2. In cases processed by VA as “proposed or under construction”, I understand that all construction must equal or exceed that shown or described in the construction exhibits used by VA to appraise the property and that, in any conflict between those construction exhibits and the applicable VA minimum property requirements, the latter will govern; and that VA will consider changes to those exhibits to be binding only when they are listed on a properly executed VA Form 26-1844, Request for Acceptance of Changes in Approved Drawings and Specifications; and that I will be proceeding at my own risk in changing or deviating from those exhibits without advance VA approval.
3. A fully executed VA Form 26-421, Equal Employment Opportunity Certification, and VA Form 8791, VA Affirmative Marketing Certification, is either attached or was previously submitted to VA.
4. Names of all persons who have a controlling or proprietary interest in this company or are principal shareholders, officers or directors. This company agrees to keep this list updated with VA:

_____	_____
_____	_____
_____	_____

Name (*Type or print*) _____ Title _____

Signature _____ Date _____

FIGURE 2: VA Appraisal Request Checklist

- 1) How will the property be appraised? (The choices are: existing construction, new construction, or proposed or under construction. Definitions are in Section 10.05.)
- 2) Have you been made aware that any of the following affect the property, making it ineligible for VA appraisal? (Details are in Sections 10.06 and 10.07.)
 - a) A valid VA value determination already exists.
 - b) Bad physical condition.
 - c) Located in a condominium unlikely to be approved by VA or HUD prior to loan closing.
 - d) Less than fee simple ownership without VA approval.
 - e) A party of interest to the transaction is excluded from participation in the VA Loan Guaranty program for any reason.
 - f) Proposed, new or under construction and the builder is unable to obtain a VA builder identification number.
 - g) Located in a Special Flood Hazard Area (SFHA) and:
 - 1) Flood insurance is not available, or
 - 2) Proposed, new or under construction and the elevation of the lowest floor is below the 100 year flood level.
 - h) Subject to regular flooding, whether or not it is in a SFHA.
 - i) Located in a Coastal Barrier Resources System area.
 - j) Proposed or under construction and in an airport Noise Zone 3.
 - k) Any part of the residence is within a transmission line easement for high-pressure gas, liquid petroleum or high voltage electricity.
 - l) Proposed, new or under construction and in an area susceptible to earthquakes or landslides or having a history of unstable soils and the builder cannot provide evidence that either the site is not affected or the problem has been adequately addressed in the engineering design.
- 3) Will the appraisal involve any of the following? (Special requirements or other pertinent information for each is in Section 10.05, unless otherwise noted.)
 - m) Common interest community (Sections 16-A.01 and 16-A.02)
 - n) Manufactured or modular home
 - o) Existing property to have major alterations or improvements prior to loan closing
 - p) Refinance only for interest rate reduction purposes
 - q) Partial release of the security for an existing loan
 - r) Conversion of a HUD value determination (Section 10.11)
 - s) Foreclosure on a defaulted loan

Continued on next page

FIGURE 2: VA Appraisal Request Checklist, Continued

- 4) If the property will be appraised as new construction:
 - a) Is the builder on the GSA list as debarred Government-wide (Section 10.07)?
 - b) Does the builder have a VA builder identification number, as required (Section 10.07)?
 - c) Is the construction fully completed except for “customer preference” items or items for which escrows are permitted, as required (Section 10.08)?
 - d) Does the builder agree to provide the veteran purchaser with either a one-year VA builder’s warranty or a ten-year insured protection plan, as required (Section 10.08)?
 - e) Will the veteran purchaser agree to make the required written acknowledgment (Section 10.08)?

- 5) If the property will be appraised as proposed or under construction:
 - a) Is the builder on the GSA list as debarred Government-wide (Section 10.07)?
 - b) Does the builder have a VA builder identification number, as required (Section 10.07)?
 - c) Did the builder provide the construction exhibits described in Section 10.10, as required?
 - d) Does the builder agree to have the property inspected by VA, as required (Section 10.09)?
 - e) Does the builder agree to provide the veteran purchaser with a one-year VA builder’s warranty (Section 10.09)?
 - f) If the property is eligible for only a final VA inspection (per Section 10.09) and local building authority inspections are not acceptable to VA in lieu of VA first and second stage inspections (per Section 14.03), does the builder agree to provide the veteran purchaser with both a one-year VA builder’s warranty and a ten-year insured protection plan?

- 6) Request the appraisal according to the instructions in Section 10.04 if:
 - a) You’ve determined how the property will be appraised (Item 1 above), and
 - b) The property appears to be eligible for VA appraisal (Item 2 above), and
 - c) You are aware of VA requirements if the appraisal involves any of the issues in Items 3, 4 and 5 above.

Note: When in doubt, look for guidance in the VA Lender’s Handbook, including its index. If still in doubt, contact the VA office with jurisdiction over the location of the property.

Chapter 11

Appraisal Requirements

Overview

Introduction This chapter contains information about appraisal requirements.

In this chapter This chapter contains the following topics.

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11.01 Using This Information

Appraisers

This topic describes the requirements that must be followed in appraising property for VA loan guaranty purposes.

Lenders

Lenders with LAPP (Lender Appraisal Processing Program) authority must use the information in this chapter when reviewing the work of VA fee appraisers. This information will also help lenders without LAPP authority to understand appraisal reports and VA-issued **Notices of Value**.

11.02 VA Reasonable Value

Definition For VA loan guaranty purposes, the “reasonable value” of a property is that figure which represents the amount a reputable and qualified appraiser, unaffected by personal interest, bias or prejudice, would recommend to a prospective purchaser as a proper price or cost in the light of prevailing conditions.

“Reasonable” vs. “Market” Value VA considers reasonable value and market value to be synonymous. VA’s definition of market value is consistent with that used by Fannie Mae, Freddie Mac and major appraisal organizations.

11.03 VA Appraisal Requirements

General Requirements

Every VA appraisal must

- be performed in a timely manner
 - conform to USPAP (Uniform Standards of Professional Appraisal Practice), and
 - meet the additional requirements (as outlined in this chapter) that VA considers to be supplemental to USPAP.
-

Timeliness

Appraisal Requesters must notify the fee appraiser on the same day as the appraisal assignment is made by VA (See Section 10.04, Step 3).

Fee appraisers must complete VA assignments as quickly as appraisals for conventional loans are completed in the area where the property is located. An exception may be allowed in a particular case if

- valid extenuating circumstances are documented, and
- VA (or the lender's staff appraisal reviewer in LAPP cases) is notified by the appraiser.

Note: Liquidation appraisals must be completed within 5 business days. Time needed to gain interior access (See Section 11.13) will not be counted against this standard. VA will consider reasonable explanations for delays beyond the control of the appraiser.

VA offices will consider adding appraisers to the fee panel in areas where it consistently takes lenders longer to obtain a VA appraisal than a complete conventional appraisal.

Properties Not Eligible for Appraisal

Fee appraisers must not complete an assignment for a property that does not appear to be eligible to become the security for a VA-guaranteed loan without first contacting the lender involved or VA.

See Section 10.06

Continued on next page

11.04 Appraisal Report Contents, Continued

Photograph Requirements

In proposed construction cases, a front view photograph of each comparable is required but photographs of the subject property are not required if there are no improvements under construction.

If the property is in a condominium more than three units high, no photographs of the comparable sales are required, provided they are located in the same project as the subject property and are substantially identical to the subject property.

In all other cases, each appraisal report requires:

- one set of original photographs of the subject property (two sets in LAPP cases) showing a front and back view (preferably including a different side view in each photograph) and the street scene, and
- one set of original photographs of each comparable. Only a front view of the comparable sales is required.
- In E-commerce transmission, one set of photographs is acceptable.

There are two alternatives to submitting original photographs:

- Computer-generated pictures are acceptable, if they are of comparable quality to original photographs.
 - Copies of listing service or advertising pictures are acceptable for the comparable sales, but **not** the subject, if they clearly depict the property.
-

Additional Conditions and Certifications

No limiting conditions can be made in addition to those on Freddie Mac Form 439/Fannie Mae Form 1004B.

Additional certifications required by State law or related to continuing education or membership in appraisal organizations, etc., can be made on a separate form or page, provided they do not conflict with the language on or any VA policy.

11.05 Submission of Appraisal Reports

Electronic Transmission

Fee appraisers are expected to e-mail their appraisal reports to lenders (for LAPP processing) and to loan holders/servicers (in case of liquidation appraisals) who provide an e-mail address in Item 5 of VA Form 26-1805, Request for Determination of Reasonable Value.

As with all other aspects of the VA appraisal process, fee appraisers must meet all Uniform Standards of Professional Appraisal Practice (USPAP) requirements applicable to electronically transmitted appraisal reports.

The appraiser must send a fully completed appraisal report with all related exhibits, including photographs, to the VA Regional Loan Center, Construction and Valuation Section. Appraisal packages are to be sent in Adobe Acrobat format.

Appraiser E-Commerce Exemption

Appraisers exempt from E-Commerce must send their appraisals by “overnight” mail. See Section 10.04 for more information.

Distribution

Appraisals for cases with the following prefixes will be sent to the requester at the e-mail address provided in item #5 of VA Form 26-1805, or at the mailing address if an e-mail address was not provided:

- LAP
 - LGI (only in cases annotated “SLMP”)
 - LPL
-

Electronic Signature

Reports submitted by e-commerce are acceptable with an electronically affixed signature, in accordance with USPAP Statement #8.

11.06 Approaches to Value

**Sales
Comparison
Approach**

Since VA relies exclusively on the sales comparison approach to value (except in very unusual circumstances involving inadequate or no comparable sales available or an extremely unique property), the VA value estimate should never exceed that indicated by the sales comparison approach.

This approach recognizes that a well-informed purchaser will generally pay no more for a property than the cost of acquiring a similar property of equal desirability and utility without undue delay.

Cost Approach

Since the residential real estate market does not base transaction decisions on a property's reproduction or replacement cost, the cost approach to value may only be used to support the sales comparison approach in the final reconciliation.

Appraisers do not have to report the cost approach for VA purposes, unless it is applicable to the appraisal as indicated above.

**Income
Approach**

If the appraisal involves an income-producing property (more than one living unit), the appraiser will use value estimates developed through both the income approach and the sales comparison approach in the final reconciliation.

11.07 Selection and Analysis of Comparable Sales

General Requirement

The appraiser must select the three best comparable sales available and properly adjust the sales price of each one for differences between it and the subject property. The goal is for the VA value estimate to not exceed the price at which similar properties can be purchased in the current market.

The appraiser must adequately explain any reliance on sales that are not truly comparable to the subject.

Sales Price Range

If there is a wide range in comparable sales prices, the appraiser must adequately explain.

Data and Verification

A single data source is adequate if it provides quality sales data verified by closed transactions. Sales data provided by a party to the sale or financing of the subject property must be verified by a party without such an interest.

Sales Dates [1]

Comparable sales should be recent. Although they should generally not be more than 12 months old, sales over six months old may be considered outdated in some markets.

- The appraiser must adequately explain reliance on outdated sales data. [1].
-

Continued on next page

11.08 Other Market Analysis Considerations, Continued

Sales Listings and Contract Offers

In every case, the appraiser must

- analyze sales listings, contract offers and unsettled sales to determine if market conditions changed between the date each comparable sold and the date of the subject property appraisal
- This is especially important in markets with rapidly increasing or decreasing values. If the subject property is in a new subdivision, the analysis must include the builder's closed sales, sales in competitive subdivisions and sales of similar existing properties.
- certify, either in the "Neighborhood" section of the URAR or on an addendum, "I have considered relevant competitive listings/contract offerings in performing this appraisal, and any trend indicated by that data is supported by the listing/offering information included in this report."
- provide a listings/offers addendum if a significant market transition is indicated in the "Neighborhood" section (due to changes in employment opportunity, housing supply/demand, average marketing time, seller concessions, etc.).

If an addendum is required:

- It must provide all of the following information regarding at least three competitive listings or verifiable, bona fide contract offerings considered the most similar and proximate to the subject:
 - The type of information usually found in an MLS entry or other listing.
 - How long each property has been on the market (total time listed).
 - Any change in the listing price of each property (if known).
 - A short statement comparing the property to the subject.
- Contract offerings are more desirable than listings.
- Any new construction contract must clearly identify every optional item and variation from the basic house type and any sales/financing concession included in the sales price.

Continued on next page

11.08 Other Market Analysis Considerations, Continued

**Sales Listings
and Contract
Offers**
(continued)

- Listings must be properly identified and may include a legible copy of a MLS entry.
- Although not required, it may be helpful to make adjustments or otherwise use a sales comparison analysis grid.

Sales listings, contract offers, and unsettled sales must not be used as comparables. If such data is clearly identified and fully explained, however, it can be used to support a time adjustment.

11.09 Minimum Property Requirements and Repairs

Existing Construction

Fee appraisers are experienced observers who must view both the interior and exterior of the subject property to both

- determine its overall condition, and
- recommend any readily observable repairs necessary to make it meet the VA Minimum Property Requirements (MPRs) stated in Chapter 12.

The fee appraiser must check the “Reconciliation” section of the URAR either

- “As is” if the property meets MPRs with no repairs needed, or
- “Subject to the repairs....” if repairs are needed to make the property meet MPRs. In that situation, the appraiser must also state “Subject to the MPR repairs noted in the comments section.” under “Conditions of Appraisal” and provide an itemized list of recommended repairs or other action necessary to make the property meet MPRs in the “Comments” section under “Condition of the improvements....”

When there is an indication of a potential environment problem (e.g., abandoned underground fuel storage tank), the appraisal report must be conditioned for correction of the problem according to any local, state or federal requirements.

Appraisers must not recommend electrical, plumbing, heating, roofing or other inspections only as a measure of liability protection. An inspection should be recommended only if there is an indication of a particular problem.

Proposed Construction

See Chapter 12.

11.10 Remaining Economic Life of Improvements

Definition	Remaining economic life is the estimated period of time until the improvements lose their ability to serve their intended purpose as a home.
Basic Requirements	<p>For VA Loan Guaranty purposes, the remaining economic life of the security must be at least as long as the loan repayment term.</p> <p>A short remaining economic life estimate must be supportable and not arbitrarily established. This is to avoid depriving veterans of the home of their choice in an area where they can afford to live.</p>
What the Appraiser Must Consider	<p>In estimating remaining economic life, the appraiser must consider</p> <ul style="list-style-type: none">• the relationship between the property and the economic stability of the block, neighborhood, and community• comparisons with homes in the same or similar areas• the need for a home of the particular type being appraised• the architectural design, style, and utility from a functional point of view• the workmanship and durability of the construction, its physical condition and probable cost of maintenance and/or repair• the extent to which other homes in the area are kept in repair, and• in areas where rehabilitation and code enforcement are operating or under consideration, their expected results in improving the neighborhood for residential use.
What the Appraiser Must Report	<p>If the estimate of remaining economic life is less than 30 years, the appraiser must provide a supporting explanation, based on either known economic factors or observed physical condition.</p> <p>If the estimate of remaining economic life is 30 years or more, the appraiser must state the estimate at its maximum (for example, 40 years).</p> <p>For condominium units, the estimate of remaining economic life must be reported in the “Comments” section of Fannie Mae Form 1073, Individual Condominium Unit Appraisal Report.</p>

12.01 MPR Variations and Exemptions

Variations

VA may agree to modify the MPRs where justified by certain conditions common to a particular geographic area or occurring on the site, or where such conditions make compliance impractical or impossible.

Exemptions

An MPR for existing construction can be waived by the VA field office if

- a veteran is under contract to purchase the property, and
 - the veteran and lender request the exemption in writing, and
 - the property is habitable from the standpoint of safety, structural soundness and sanitation, and
 - VA is satisfied that the nonconformity has been fully taken into account by way of depreciation in the VA valuation.
-

12.02 Proposed Construction MPRs

Where a Building Code is Enforced

If the property is located in a jurisdiction which enforces a State, county or local building code, then VA MPRs require that the construction comply with

- the applicable State, county or local building code
- 24 Code of Federal Regulations (CFR) 200.926d, *Construction Requirements*
- 1992 Council of American Building Officials (CABO) *Model Energy Code (MEC)*, and
- HUD references below.

[\[CFR 200.926d\]](#)

Where a Building Code is Not Enforced

If the property is located in a jurisdiction which **does not** enforce a State, county or local building code, then VA MPRs require that the construction comply with

- applicable provisions of the current *CABO International One and Two Family Dwelling Code*, and any mandatory codes or standards incorporated by reference
- 24 CFR 200.926d, *Construction Requirements*
- 24 CFR 200.926e, *Supplemental Information for Use with CABO One and Two Family Dwelling Code*
- 1992 CABO *Model Energy Code (MEC)*, and
- HUD references below.

[\[24 CFR 200.926d\]](#)

[\[24 CFR 200.926e\]](#)

Continued on next page

12.03 Basic MPRs, Continued

Heating

Heating must be adequate for healthful and comfortable living conditions.

If the property has an **unvented space heater**, see the requirements in Section 11.12.

Homes with a **wood burning stove** as a primary heating source must also have a permanently installed conventional heating system that maintains a temperature of at least 50 degrees Fahrenheit in areas with plumbing.

Solar systems for domestic water heating and/or space heating must:

- meet standards in HUD Handbook 4930.2, Solar Heating and Domestic Hot Water Heating Systems, and
- be backed-up 100 percent with a conventional thermal energy subsystem or other backup system which will provide the same degree of reliability and performance as a conventional system.

Note: VA field stations may determine that climatic conditions are such that mechanical heating is not required.

Water Supply and Sanitary Facilities

Each unit must have **the following**:

- domestic hot water
- a continuing supply of safe and potable water for drinking and other household uses, and
- sanitary facilities and a safe method of sewage disposal.

Reference: For requirements regarding **individual** water supplies and individual sewage disposal systems, see Section 12.08.

Continued on next page

12.03 Basic MPRs, Continued

Roof Covering The roof covering must

- prevent entrance of moisture, and
- provide reasonable future utility, durability, and economy of maintenance.

When a defective roof with three or more layers of shingles must be replaced, all old shingles must first be removed.

Crawl Space The crawl space must

- have adequate access
- be clear of all debris, and
- be properly vented.

The floor joists must be sufficiently above the highest level of the ground to provide access for maintenance and repair of ductwork and plumbing.

Any **excessive dampness or ponding of water** in the crawl space must be corrected.

Ventilation Natural ventilation of structural spaces such as attics and crawl spaces must be provided to reduce the effect of excess heat and moisture which could cause decay and deterioration of the structure.

Electricity Each unit must have electricity for lighting and for necessary equipment.

12.08 Individual Water Supply/Sewage Disposal Requirements, Continued

Shared Wells

The following requirements must be met for a shared well:

- The well must be capable of providing a continuing supply of safe and potable water to each property simultaneously, so that each dwelling will be assured a sufficient quantity for all domestic purposes.
 - There must be a permanent easement which allows access for maintenance and repair.
 - There must be a well-sharing agreement which
 - makes reasonable and fair provisions for maintenance and repair of the system and the sharing of those costs
 - is binding on the signatory parties and their successors in title, and
 - is recorded in local deed records.
-

Springs or Cisterns

Springs or cisterns are permitted where such facilities are customary and the only feasible means of water supply, provided they are installed in accordance with the recommendations of the local health authority, and the veteran purchaser acknowledges in writing his/her awareness of the situation.

If the local health authority has no requirements, U.S. Public Health Service requirements apply.

Sewage Disposal System

An individual sewage disposal system must adequately dispose of all domestic wastes in a manner which will not create a nuisance, or in any way endanger the public health.

Pit Privies

Individual pit privies are permitted where such facilities are customary and are the only feasible means of waste disposal, provided they are installed in accordance with the recommendations of the local health authority.

If the local health authority has no requirements, U.S. Public Health Service requirements apply.

12.09 Community Water Supply/Sewage Disposal Requirements

Basic Requirement

If the property will be served by a community water and/or sewage disposal system, VA must be satisfied that the type of system and organization will provide adequate, continuous service at reasonable rates.

The **water supply** must be sufficient in size for the project. The quality of the water must be approved by the local or State health officials.

The **sewage system** must also be adequate in size and properly operated and maintained so as to prevent it from becoming obnoxious or a menace to public health.

Documentation Required

For properties appraised as existing or new construction, the only requirement is evidence of approval of the facilities by the appropriate State or local public utility and health authorities.

For properties appraised as proposed or under construction, the VA field station will review the following documentation:

- evidence of the financial stability and technical experience of the corporation, firm or organization operating the facilities
 - evidence of approval of the facilities by the appropriate State or local public utility and health authorities, and
 - rates for the water supply and/or sewage disposal systems (to ensure that they are not greater than the charges for like services to properties similarly situated).
-

When a Trust Deed is Required

The trust deed will be designed and established to ensure satisfactory control and adequate protective measures if the State Board of Health, Public Utility Commission, or similar State authority **does not**

- enforce compliance with its requirements
 - fix rates, or
 - provide for prompt relief in case of deficient operations or service or exorbitant rates.
-

Continued on next page

12.10 Manufactured Homes Classified as Real Estate, Continued

**Proposed or
Under
Construction**

When the foundation for a manufactured home has **not** been fully completed and the unit has not been installed, the home is considered to be “proposed or under construction.”

There are two MPR-related requirements for these proposed or under construction cases:

- The site and on-site improvements (but not the manufactured unit itself) must meet the requirements outlined in Section 12.02.
- The manufactured home unit must be properly attached to a permanent foundation system which is constructed to withstand both supporting loads and wind-overturning loads, and is acceptable to the building authority having jurisdiction.
- **References:** In addition to *Proposed Construction MPRs* in this chapter, additional information regarding manufactured home installations can be found in
 - the manufacturer's installation instructions (used to determine the permissible points of support for vertical loads and points of attachment for the anchorage system used to resist horizontal and uplift forces), and
 - the *Appendix* section of the *CABO One and Two Family Dwelling Code*.

Continued on next page

12.10 Manufactured Homes Classified as Real Estate, Continued

Foundation Requirements The following table lists each foundation component and any related requirements for “proposed or under construction” cases.

Foundation Component	Requirement
Piers and Footings	<p>The load-bearing piers and footings must</p> <ul style="list-style-type: none"> • be of sufficient size and number to distribute the weight of the manufactured home evenly • be of materials acceptable to the building authority having jurisdiction, and • (where applicable) have footings which extend below the frost line.
Concrete Slabs or Continuous Footings	<ul style="list-style-type: none"> • Concrete slabs or continuous footings are acceptable in areas where their use is permitted by local building authorities. Steel anchorage devices must be cast into the concrete slab or footing and be capable of providing holding strength to resist horizontal and uplift forces.
Anchoring Devices	<p>Anchoring devices, adequate to resist all loads, must</p> <ul style="list-style-type: none"> • be attached to the main frame of the unit by a bolted, welded, or mechanical connector • be placed at every supporting pier or as specified by the manufacturer, and • extend into the pier footing. <p>Anchoring straps or cables affixed to ground anchors, other than pier footings, will not meet this requirement unless specifically allowed by the building authority of jurisdiction.</p>
Hurricane Ties	<p>Properties located in Wind Zone II or III (wind speeds in excess of 80 mph) must be provided with diagonal hurricane ties which have been properly engineered for the location, and comply with the requirements of the building authority having jurisdiction.</p> <p>Important: The installation procedures included in both the manufacturer's foundation instructions and <i>NCS BCS Handbook A225.1</i> are not generally adequate for manufactured homes in these areas.</p>

Chapter 13

Value Notices

Overview

In this Chapter This chapter contains the following topics.

Topic	See Page
13.01 Reviewing Appraisal Reports	13-3
13.02 Resolving LAPP Appraisal Review Problems	13-5
13.03 Documenting LAPP Appraisal Reviews	13-7
13.04 LAPP-Issuing a NOV at Other Than the Appraiser's Value Estimate	13-9
13.05 Preparing Notices of Value	13-11
13.06 Notice of Value Conditions and Requirements	13-12
13.07 Distributing Notices of Value	13-24
13.08 How Long Notice of Value is Valid	13-25
13.09 Requesting Changes to the NOV	13-26
13.10 Transfer of Appraiser's Reports Between Lenders	13-29
13.11 Discovery of Title Limitations & Conditions	13-30
13.12 Effect of Major Disasters on Notices of Value	13-34
Exhibit 1—LAPP Lender's Notice of Value	13-35

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Overview, Continued

Importance of VA Value Estimate Accurate value estimates based on proper appraisal reviews are essential to the viability of the VA Loan Guaranty program and have a direct effect on the interests of the Government, veterans and lenders.

Rely Only on Notice of Value Since appraisal reports are subject to change upon review, lenders and holders should rely only upon a VA notice of value issued by the appraisal reviewer.

Issuing a Notice of Value The table below describes the steps to follow when issuing a Notice of Value.

Steps	Description	Refer to
1	Confirm eligibility of property for appraisal and LAPP processing.	<ul style="list-style-type: none"> • Chapter 10, and • Section 15.09.
2	Review the appraisal report.	<ul style="list-style-type: none"> • Section 13.01, and • Chapter 11.
3	Resolve any appraisal-related problems.	Section 13.02.
4	Document the appraisal review.	Section 13.02.
5	Prepare the Notice of Value.	<ul style="list-style-type: none"> • Section 13.04 • Section 13.05 • Section 13.06, and • Section 12.08.
6	Distribute the Notice of Value.	Section 13.07.

Note: Every property eligible for the Lender Appraisal Processing Program (LAPP) should be processed under LAPP. If a LAPP lender fails to process an eligible property under LAPP, the request for VA guaranty must include a detailed explanation.

Continued on next page

13.02 Resolving LAPP Appraisal Review Problems

Contact and Cooperation

LAPP lenders are expected to take reasonable steps to resolve problems detected during their appraisal reviews. While branch office staff and authorized agents may contact the fee appraiser about the timeliness of a particular appraisal, only the lender's VA-authorized staff appraisal reviewer (SAR) may contact the appraiser to discuss valuation matters.

VA fee appraisers are expected to cooperate in addressing concerns about the content of their appraisal reports and timeliness in completing assignments.

Additional Information

When information, methodology or conclusions in the appraisal report require additional clarification or support, the SAR must contact the fee appraiser and obtain the necessary information.

Appraisal Report Changes

Any clarification, correction or revision by a fee appraiser to an appraisal report must be in writing, signed and dated. The fee appraiser must clearly identify any revised appraisal report as such in bold letters.

The lender must attach any clarification, correction or revision to the original appraisal report provided by the fee appraiser. The withholding of this or any other appraisal documentation is unacceptable and may result in administrative action against the lender and/or fee appraiser, as appropriate.

See: Section 13.04, which addresses restrictions on changes by the SAR to the fee appraiser's value estimate.

Continued on next page

13.02 Resolving LAPP Appraisal Review Problems, Continued

Referral to VA When a substantive problem is not corrected after a reasonable effort, the SAR must send the VA office of jurisdiction

- a written report which clearly outlines the problem(s) and the dates and results of contact with the fee appraiser, and
- the appraisal report and/or other pertinent documentation.

VA will subsequently notify the appropriate parties of its decision and document the fee appraiser's performance file, the lender's file and the case file, as appropriate. It may be necessary for VA staff to review the appraisal report and issue a VA Certificate of Reasonable Value.

Note: Refer all **complaints** about property condition or appraiser performance to VA.

Timeliness

LAPP lenders are responsible for resolving any timeliness problems involving authorized agents and branch personnel.

SARs should notify VA when fee appraiser timeliness expectations are not being met.

VA Consistency VA offices are expected to be as consistent as possible regarding NOV conditions and requirements. They must notify LAPP lenders by posting changes to the "approved local conditions" section of the C&V web pages when a local situation dictates an additional condition or requirement not listed on the standard NOV.

Reference: See Chapter 13, Exhibit 1, LAPP Lender's Notice of Value.

13.04 LAPP- Issuing a NOV at Other Than the Appraiser's Value Estimate

Change Restrictions

The lender's staff appraisal reviewer (SAR) may issue a NOV that is up to 5 percent above or below the fee appraiser's value estimate provided the adjustment is:

- *clearly warranted and fully supported*
 - by the real estate market, **or**
 - by other valid data considered adequate and reasonable by professional appraisal standards,

And

- *fully documented.*

The documentation must:

 - be attached to the original appraisal report,
 - include any supporting documentation from the fee appraiser or any other source, **and**
 - include a completed sales comparison grid in appraisal report format, or similar format, when appropriate. This analyzes any additional sales data, including adjustments for all value-related differences between the subject property and the additional sales.

Other Changes

Changes in fee appraiser repair recommendations are addressed in Section 13.06 (under "NOV Item-Repairs")

Value increases of more than five percent or other changes requested after the notice of value is issued are addressed in Section 13.09.

Continued on next page

13.04 LAPP- Issuing a NOV at Other Than the Appraiser's Value Estimate, Continued

Penalty for Abuse

If VA determines that the SAR's value change was unwarranted and resulted in a VA loss due to payment of a claim under guaranty, the lender must indemnify VA to the extent that VA determines such loss was caused or increased by the increase in value.

Potential Conflict With State

SARs may not wish to exercise this authority where it is considered to be in conflict with State requirements.

In some states, the agency which regulates appraisers may take the position that any change in value by an appraisal reviewer subjects that individual to the State's requirements for appraisers.

13.05 Preparing Notices of Value

Format Under LAPP

Under LAPP, the lender's VA-authorized staff appraisal reviewer (SAR) must complete the standard notice of value form **in TAS, or on**

- the lender's corporate letterhead, **or**
- attached to a statement on that letterhead which references it.

Reference: See Chapter 13, Exhibit 1, LAPP Lender's Notice of Value.

Format If Prepared by VA Staff

If prepared by VA staff, the notice of value **may be TAS generated or prepared on** VA Form 26-1843a, Master Certificate of Reasonable Value (MCRV) for a group of related properties.

Notice of Value Contents

Every notice of value will include

- estimated reasonable value of the property (*See* Section 11.02).
- estimated remaining economic life of the property (*See* Section 11.10), and
- a list of any property-related conditions and requirements necessary for VA loan guaranty.

Reference: See Section 13.06.

13.06 Notice of Value Conditions and Requirements

Introduction Every notice of value (NOV) issued in conjunction with an appraisal review must include a list of any conditions and requirements that must be satisfied for the property to be eligible for VA loan guaranty.

Reference: See Section 13.05.

Table of NOV Conditions & Requirements

The Table of NOV Conditions and Requirements below

- lists each condition and requirement shown on the standard LAPP NOV in the same order as shown on that NOV,
- explains when each item is applicable,
- explains what action is required to satisfy the condition or requirement, and
- references any additional information about the item in this handbook.

Reference: See Chapter 13, Exhibit 1, LAPP Lender's Notice of Value.

NOV Item	Instructions for Preparing the NOV
Energy Conservation Improvements	<p>Check this item for every property appraised as "existing construction." This action allows lenders to increase the loan amount for buyers to make energy efficiency improvements to the property.</p> <p>Note: "Proposed" or "under construction" and "new construction" cases are not eligible for VA's Energy Efficient Mortgage program. For more on Energy efficient improvements, see Item 1 on the NOV or Section 7.03.</p>

Continued on next page

13.06 Notice of Value Conditions and Requirements, Continued

Table of NOV Conditions & Requirements (continued)

NOV Item	Instructions for Preparing the NOV
Flood Insurance	<p>Check this item if the dwelling is located in a Special Flood Hazard Area (SFHA). It is the lender's responsibility to assure that flood insurance is obtained and maintained on properties located in SFHAs, whether or not the appraiser correctly identifies the property as being in an SFHA.</p> <p>Exceptions:</p> <ul style="list-style-type: none"> • The property is not eligible as the security for a VA home, if the property is located in an SFHA and flood insurance is not available because the community is not participating in the National Flood Insurance Program (NFIP) • The lender can appeal to the Federal Insurance Administration (FIA), if there is an indication that a property is incorrectly included in a SFHA. <p>• Note: Based on FIA's administrative review of the scientific or technical data submitted by the lender, FIA may issue a Letter of Map Amendment (LOMA) to amend the current FEMA map and establish that the property is not located in a SFHA.</p> <p>References:</p> <ul style="list-style-type: none"> • Item 8 on the NOV • Section 9.10 • Section 10.06 • Chapter 11, Figure 1.
Airport Acknowledgement	<p>Check this item if the property is located in an airport noise zone or safety-related zone acceptable to VA.</p> <p>Reference:</p> <ul style="list-style-type: none"> • Item 9 on the NOV • Section 10.06 • Chapter 11, Figure 1.

Continued on next page

13.06 Notice of Value Conditions and Requirements, Continued

Table of NOV Conditions & Requirements (continued)

NOV Item	Instructions for Preparing the NOV
Repairs	<p>Check the appropriate items and list the repairs recommended by the appraiser which are necessary to make the property meet VA Minimum Property Requirements (MPRs).</p> <p>Lead-Paint Conditions Since properties built prior to 1978 may contain lead-based paint, the correction of any defective paint condition on such properties must be made according to the requirements in Section 12.03 and inspected only by VA fee personnel or VA staff.</p> <p>Notes:</p> <ul style="list-style-type: none"> • A notice of value should not be issued for a property in a badly deteriorated condition unless there is a reasonable likelihood that it can be repaired to meet VA MPRs prior to loan closing. • A certification regarding the condition or adequacy of the roof, electrical/plumbing/heating systems, etc., should not be required unless there is an indication of a problem. • Lenders and fee appraisers should use their own letterhead when certifying that required repairs have been satisfactorily completed. Generally, fee inspectors will not inspect repairs to existing properties, unless the loan involves alterations or improvements for which construction exhibits are required. <p>Lender and purchaser disagreements with fee appraiser repair recommendations will be resolved by either:</p> <p>[REDACTED]</p> <p>[REDACTED] not appear necessary per Section 11.09, for the property to meet MPRs). SAR must then provide in writing any changes made by the appraiser, or</p> <ul style="list-style-type: none"> • VA contact with SAR or fee appraiser (if initial lender/appraiser contact does not resolve the issue), or • SAR and purchaser request VA to waive the repair item(s) in question, if necessary and appropriate per Section 12.01 under “Exemptions”.

Continued on next page

13.06 Notice of Value Conditions and Requirements, Continued

Table of NOV Conditions & Requirements (continued)

NOV Item	Instructions for Preparing the NOV
Repairs, continued	<p>Reference:</p> <ul style="list-style-type: none">• Item 10 on the NOV• Section 10.01• Section 10.05• Section 10.06• Section 11.04• Section 11.09• Chapter 12.
Local Housing/ Planning Authority Code Requirements	<p>Check this item if the property is existing construction which is located in an area where specific local housing/planning authority code requirements are enforced in conjunction with the sale of homes</p> <p>Reference:</p> <ul style="list-style-type: none">• Item 11 on the NOV• Section 10.07• Figure 1 in Chapter 11

Continued on next page

13.06 Notice of Value Conditions and Requirements, Continued

Table of NOV Conditions & Requirements (continued)

NOV Item	Instructions for Preparing the NOV
"Not Inspected" Acknowledgement	<p>Check the appropriate items if the property was appraised as "new construction".</p> <p><i>Note:</i> <i>Item 12a</i> on the NOV applies if the property is to be covered by a one-year builder's warranty per Section 10.08. <i>Item 12b</i> on the NOV applies if the property is to be covered by a 10-year insured protection plan per Section 10.09.</p> <p><i>Reference:</i></p> <ul style="list-style-type: none"> • Item 12 on the NOV • Section 10.05 • Section 10.08 • Chapter 10, Figure 1.
10-Year Insured Protection Plan	<p>Check this item if the property was appraised as either "proposed or under construction" or "new construction" and is to be covered by a 10-year insured protection plan.</p> <p><i>Note:</i> A copy of the builder's application to enroll the subject property in an acceptable 10-year plan is adequate "evidence of enrollment." It is the builder's responsibility to ensure that all enrollment fees are paid and the enrollment process is otherwise completed.</p> <p><i>Reference:</i></p> <ul style="list-style-type: none"> • Item 13 on the NOV • Section 10.05 • Section 10.09 • Chapter 14, Overview.

Continued on next page

13.06 Notice of Value Conditions and Requirements, Continued

Table of NOV Conditions & Requirements (continued)

NOV Item	Instructions for Preparing the NOV						
Other Conditions & Requirements	<p>Check this item and list any other conditions or requirements necessary to satisfy fee appraiser or local VA office concerns, or otherwise cause the property to meet all VA requirements.</p> <p><i>Example:</i> If the dwelling will have a permanently installed, non-electric, non-vented fireplace or other non-vented space heater, the NOV must be conditioned to require</p> <ul style="list-style-type: none"> • the veteran purchaser’s written acknowledgement that the dwelling contains an non-vented fireplace or space heater which has not been inspected by VA, and • a written heating/air conditioning contractor, that identifies the property and states that the non-vented appliance <ul style="list-style-type: none"> – is equipped with an approved Oxygen Depletion Sensor, and – meets local building authority requirements, or is installed according to the manufacturer’s recommendations if there are no local requirements. <p><i>Consistency and Additional Conditions</i> VA offices are expected to be as consistent as practicable regarding NOV conditions and requirements. They will notify lenders in writing when a local situation dictates an additional condition/requirement not listed on the standard NOV.</p>						
SAR Signature	<table border="1" style="width: 100%;"> <thead> <tr> <th data-bbox="459 1318 727 1358">If ...</th> <th data-bbox="727 1318 1427 1358">...then...</th> </tr> </thead> <tbody> <tr> <td data-bbox="459 1358 727 1503">the NOV was issued through TAS</td> <td data-bbox="727 1358 1427 1503"> <ul style="list-style-type: none"> • the signature of the SAR is required on the NOV sent to the veteran, • however, no SAR signature is required on E-mailed copies to the veteran. </td> </tr> <tr> <td data-bbox="459 1503 727 1686">the NOV was not issued through TAS</td> <td data-bbox="727 1503 1427 1686"> <ul style="list-style-type: none"> • the signature of the SAR is required on both the NOV sent to the veteran and the NOV sent to VA. • the SAR’s signature is also required on the SAR Certification which must be sent to VA with a copy of a reviewed appraisal and NOV. </td> </tr> </tbody> </table>	Ifthen...	the NOV was issued through TAS	<ul style="list-style-type: none"> • the signature of the SAR is required on the NOV sent to the veteran, • however, no SAR signature is required on E-mailed copies to the veteran. 	the NOV was not issued through TAS	<ul style="list-style-type: none"> • the signature of the SAR is required on both the NOV sent to the veteran and the NOV sent to VA. • the SAR’s signature is also required on the SAR Certification which must be sent to VA with a copy of a reviewed appraisal and NOV.
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13.07 Distributing Notices of Value

LAPP Cases

For cases processed under LAPP, the SAR must send the

- veteran borrower the NOV and a copy of the reviewed appraisal report, within five business days of the lender's earliest receipt of the appraisal report by the SAR or an authorized agent/broker.

Note: Any delay without documented, reasonable extenuating circumstances, such as the need to obtain additional information from the fee appraiser, will not be acceptable.

- VA office of jurisdiction
 - a copy of the NOV, and
 - a complete set of the appraisal report contents (Section 11.04), either on the same day the NOV is sent to the veteran or by the last day of the month along with the other NOVs issued that month, and
 - fee inspector if assigned by VA, a copy of the NOV, if applicable
-

NOV Issued by VA

For VA processed cases, VA will send the

- lender the original NOV or Master CRV and an original copy of the VA-reviewed appraisal report with all related exhibits, **and**
- veteran borrower a copy of the NOV. If the borrower is unknown at the time the NOV is prepared, the copy will be
 - retained in the case file and mailed to him/her upon VA receipt of the Uniform Residential Loan Application (in "prior approval" cases), **or**
 - sent [] after the loan is guaranteed (for loans processed on the automatic basis).

Note: For properties valued on a Master CRV, the veteran borrower's notice of value will be considered to be VA Form 26-1820, Report and Certification of Loan Disbursement or VA Form 26-1802a, HUD/VA Addendum to Uniform Residential Loan Application.

13.08 How Long Notice of Value is Valid

Existing or New Construction A notice of value for property appraised as existing or new construction is valid for six months. Rapidly fluctuating real estate market conditions may temporarily dictate the use of a shorter validity period.

Proposed or Under Construction A notice of value for a property appraised as proposed or under construction is valid for 12 months. Rapidly fluctuating real estate market conditions may temporarily dictate the use of a shorter validity period.

Veteran Under Contract If a veteran signs a purchase agreement during a notice of value's validity period, that notice of value will remain valid until that transaction is either completed or terminated.

Extension of Validity Period VA will extend the validity period only when it is determined that current market conditions make it likely that the original value estimate will remain valid through the extended period.

Generally, extension requests will be sent to the VA office of jurisdiction, which will contact the fee appraiser involved, if appropriate, and issue an endorsement to the notice of value, if justified.

13.09 Requesting Changes to the NOV

Policy	<p>After a notice of value is issued, the value estimate or any NOV condition or requirement may be changed if either</p> <ul style="list-style-type: none"> • the change is clearly warranted and fully supported by real estate market or other valid information which would be considered adequate and reasonable by professional appraisal standards, or • the NOV's issuance involved fraud, misrepresentation or substantial VA or LAPP lender administrative error and action is necessary to make the valuation consistent with the real estate market. <hr/>
How to Request a Change	<p>Any party of interest may request a change to a NOV. For documentation purposes, every such request must be in writing.</p> <p>The change request should be submitted to the lender.</p> <hr/>
Submission of Real Estate Market Data	<p>Although there is no requirement that comparable sales or other real estate market information be submitted with a request for a change in value, such supporting information will greatly assist in reviewing the request.</p> <p>Note: A new VA appraisal must not be requested for any property which already has a valid NOV. However, an additional appraisal not assigned by VA can be used to support a request for an increase in value, provided the veteran purchaser was not required to pay any portion of the cost of that additional appraisal.</p> <hr/>
Processing Change of NOV Request	<p>Upon receipt of a request to change a notice of value, the lender will either:</p> <ul style="list-style-type: none"> • Process the request per Section 13.04 ("LAPP-Issuing NOV at Other Than Appraiser's Value Estimate") or Section 13.06 ("NOV Item – Repairs"), if applicable, or • Forward the request to the VA-assigned appraiser if it involves a request for increase in the value estimate of more than five percent but less than 10 percent or otherwise needs fee appraiser involvement, (i.e. repairs/condition waivers) or • Forward the request to the VA office of jurisdiction if it involves a request for increase in the value estimate of 10 percent or more or if it involves matters regarding appraiser's performance. <hr/>

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13.09 Requesting Changes to the NOV, Continued

Appraiser's Role

When a fee appraiser receives a request from a lender regarding a change in a notice of value, the fee appraiser will

- record on the request the date that it was received (for VA timeliness calculation purposes)
- review the request and any supporting documentation
- prepare a written recommendation, with justification that would be considered adequate and reasonable by professional appraisal standards, and

Note: In most cases, this will include a sales comparison analysis grid or similar analysis.

- forward the recommendation and all related documentation to either the
 - lender, if the case is being processed under LAPP and an increase in value of not more than 5 percent is justified, or
 - VA office of jurisdiction, in all other cases.

Note: The appraiser may charge a reasonable fee (not to exceed that allowed by VA) if the market data necessary to reconsider the value estimate was not available at the time of the appraisal.

VA's Role

Upon receipt of either a request from a lender to change a notice of value or a fee appraiser's recommendation regarding a change to a notice of value, VA staff will:

- review the material received,
 - contact the fee appraiser, if necessary, and otherwise determine if the requested change is justified, and
 - notify the lender of VA's decision.
-

Continued on next page

13.09 Requesting Changes to the NOV, Continued

Lender's Role

For cases processed under LAPP, an amended NOV will be issued in TAS and provided to the veteran purchaser,

- upon reconsideration by the SAR of additional data justifying an increase in value, of not greater than five percent, or
- upon receipt of a fee appraiser's justified recommendation for an increase in value, of not greater than five percent, or
- upon receipt of the VA letter authorizing an increase in value or other changes to the NOV.

Documentation concerning the change is to be retained for future VA reference. The amended NOV will replace the original NOV which will not be retained.

14.01 Obtaining an Inspection

How to Assign an Inspector

VA assigns, without favoritism or discrimination, an inspector from its fee inspector roster

- at the same time as the appraiser, in most cases, or
- at the time a notice of value is issued by VA staff, if the appraisal requester does not choose to have the inspectors assigned at the same time as the appraiser **and** the value determination will be made by VA staff.

VA may assign more than one inspector in the case of master appraisals.

Reference: For information about assigning a fee inspector, refer to Section 10.04.

Early Start Assignments

To avoid builder delays in starting construction, VA can assign the inspector prior to assigning the appraiser. The builder or sponsor must submit a written request which includes

- a statement of understanding of the special nature of the procedure and the fact that inspection fees will be paid whether or not a VA value notice is issued, and
 - construction exhibits which are properly certified in accordance with Section 10.10, *Construction Exhibits*.
-

Requesting an Inspection

The builder contacts the inspector directly to schedule inspections as each phase of construction is completed.

Inspection Report Form

All compliance inspections will be reported on VA Form 26-1839, Compliance Inspection Report.

14.02 Inspection Stages

Introduction

This topic contains information about

- displaying legal notices
 - the stages of inspection
 - what inspectors look for during the inspection
 - re-inspections
 - special inspections, and
 - missed inspections.
-

**Equal
Employment
Opportunity
Poster
Requirement**

At the initial inspection, inspectors will note any failure of the builder to prominently display VA Poster 26-83-1, Equal Employment Opportunity is the Law, as a noncompliance item on the inspection report. Each contractor and subcontractor must display the poster in conspicuous places at job sites covered by VA value notices for proposed construction.

In all areas with significant concentrations of Spanish-speaking people, VA Poster 26-83-1(S) printed in Spanish, must be displayed next to the poster in English.

When noncompliance with the poster requirement is found, the VA office of jurisdiction will immediately inform the builder that no further inspections will be made until the poster is displayed.

**Obtaining
Equal
Employment
Opportunity
Posters**

VA supplies the poster to the builder with the VA value notice, if issued by the VA. Although one poster may be used to cover a group of properties being constructed simultaneously by a builder, VA will furnish additional posters needed for adequate coverage.

Posters are available from the VA Forms and Publications Depot.

Continued on next page

14.05 Delayed Installation of Appliances and Finished Floor Covering

**What is
Required**

With the exception of floor covering in bathrooms and wood finish flooring, installation of appliances and finished floor covering may be delayed until as late as just prior to loan closing, provided the third-stage inspection report includes the following:

- In Section 1, a description of
 - all appliances and finish floor covering to be installed as identified in the specifications, for example, carpet manufacturer’s name and carpet quality code number, and
 - the living area(s) involved, if not obvious.
 - In Section 6, check
 - “Prefinal Report Approved,” and
 - “Certification is required that lender’s inspection prior to loan closing reveals satisfactory installation of specified appliances and finish floor covering as described in Item 1 in the area(s) identified in Item 1.”
-

**What is not
Required**

A revised VA Value Notice is not required.

14.06 Lender Use of Inspection Reports

Receipt of Inspection Reports

If construction is acceptable and there are no deviations or substitutions, the compliance inspector will submit the inspection report (VA Form 26-1839) in the following manner:

- *If the lender is known:*
 - Provide the lender with a copy,
 - Provide the builder with a copy, and
 - Keep a copy for his/her file.

 - *If the lender is not known:*
 - Provide the builder with two copies, one of which the builder will forward to the lender when known, and
 - Keep a copy for his/her file.
-

Use of Inspection Reports

Considering the requirements to obtain VA loan guaranty, before the loan is closed, the lender should ensure that

- all VA value notice requirements regarding inspections are met
 - any deviations and/or noncompliance items listed on the third-stage inspection report are resolved to VA's satisfaction
 - any appliances or floor coverings installed under Section 14.05 are the same as those described in Section 1 of the third-stage inspection report, and
 - the third stage inspection report includes all of the information required for a final inspection.
-

Retention of Inspection Reports

The lender must retain all inspection-related material in their loan origination file.

14.07 Changes to Construction Exhibits

How to Request a Change Use the table below to request a change to construction exhibits after the appraisal.

When a Veteran is ...	Then ...
under contract	the veteran under contract must make a written request for any changes.
not under contract	the builder, lender, or sponsor making the written request for modification must certify that the property is not under contract to a veteran.

Change Request Form VA Form 26-1844, **Request For Acceptance of Changes in Approved Drawings and Specifications** must be used to request the change. There are two exceptions:

- If there is no veteran-purchaser involved and the change is limited to substitution of mechanical equipment of equal value, then the fee inspector may check VA Form 26-1839, Section 1B, Substitutions or Deviations, describe the change of equipment and the value attributed to the substituted equipment and note the change on the related plans and specifications.
- If the property was inspected by HUD, provided
 - the additions, substitutions or variations are clearly described on the HUD inspection report
 - the veteran-purchaser has signed his/her acceptance of the changes, and
 - the change items are of a minor nature with no additional cost to the veteran involved and no change in reasonable value is indicated.
- **Example:** Substitution of water heater, furnace, hardware, bath fixtures and/or relocation of electrical outlets, windows, etc.

Continued on next page

14.07 Changes to Construction Exhibits, Continued

Approval of Changes not Affecting Property Value

Fee inspectors may approve and distribute a properly completed VA Form 26-1844, containing all required signatures, which does not involve deletions or a change in value. In these cases, the builder must complete VA Form 26-1844 in duplicate and have the form at the job site at the time of the scheduled inspection.

The inspector

- confirms the above information
 - inspects the property according to the plans, specifications and change order
 - signs the change order in the appropriate space
 - gives the builder the original counter-signed change order to forward to the lender, and
 - retains one copy.
-

Approval of Changes Which Affect Property Value

VA staff must approve any VA Form 26-1844, **Request for Acceptance of Changes in Approved Drawings and Specifications**, including deletions or a change in value, by **issuing an amended NOV**.

VA will generally find it more appropriate to pursue this action in cases which also involve changes in notice of value conditions or legal requirements, legal descriptions substitution of plan types, etc..

Continued on next page

14.07 Changes to Construction Exhibits, Continued

Notification

For changes approved by the VA staff, VA

- mails a copy of the amended NOV directly to the veteran-purchaser,
- places copy of amended NOV in the VA loan file, and
- notifies the lender that the amended NOV is available through TAS.

If no veteran is under contract, a copy will be attached to the veteran's copy of the notice of value in the loan file and mailed to him/her upon receipt of a loan application or loan report.

**Cancellation of
VA Approval**

Any violation of the Conditions of Acceptance printed on the reverse of VA Form 26-1844 will be cause to withdraw or cancel VA's acceptance of the changes.

Chapter 15

Lender Appraisal Processing Program (LAPP)

Overview

Purpose of LAPP

The purpose of the Lender Appraisal Program (LAPP) is to speed the time to loan closing by allowing VA-authorized lenders to receive appraisal reports directly from appraisers and process them without VA involvement.

How LAPP Works

There are basically four steps in processing LAPP cases.

Stage	Description
1	The LAPP lender requests VA assignment of a fee appraiser and a VA loan number (same as any other case) and identifies the case as "LAPP."
2	The VA-assigned appraiser sends the appraisal report directly to the LAPP lender's VA-approved staff appraisal reviewer (SAR).
3	The LAPP lender's SAR <ul style="list-style-type: none">• reviews the appraisal report for completeness and conformity with industry-accepted appraisal practices and techniques as well as other VA requirements• determines the reasonable value of the property and any conditions which must be met prior to VA guaranty of the loan, and• sends the veteran buyer a written notice of the value which includes any conditions or requirements upon which the VA loan guaranty is contingent.
4	The LAPP lender then underwrites and closes the loan on the automatic basis and requests VA guaranty.

Continued on next page

Overview, Continued

In this Chapter This chapter contains the following topics.

Topic	See Page
15.01 LAPP Eligibility	15-3
15.02 Lender Quality Control System Requirements	15-6
15.03 Applying for LAPP Authority	15-8
15.04 SAR Training and Initial Case Reviews	15-9
15.05 Changes in SAR's Employment or Lender's Status	15-13
15.06 Lender Responsibilities Under LAPP	15-14
15.07 LAPP Processing Procedures	15-15
15.08 Affiliates and Agents	15-17
Exhibit 1: LAPP Application	15-20

15.07 LAPP Processing Procedures

Property Eligibility and Appraisal Requests

The appraisal of any property eligible to be the security for a VA loan can be processed under LAPP except

- master appraisals
- foreclosure appraisals
- those involving partial release of VA loan security, and
- those involving HUD value determinations.

Reference: For details regarding the eligibility of property for appraisal for VA purposes, as well as VA appraisal request instructions, see Chapter 10.

Appraisal Requirements

For details about VA appraisal requirements, see Chapter 11.

Appraisal Reviews

For details about requirements for reviewing appraisals and issuing notices of value for VA purposes, see Chapter 13. and Notices of Value

15.07 LAPP Processing Procedures

Submitting Cases to VA for Processing

An appraisal which the lender chooses not to process under LAPP can be submitted to the VA office of jurisdiction for VA staff to review and issue a **Notice of Value (NOV)**.

The submission must include the SAR's draft notice of value (NOV) letter to the veteran and all of the appraisal documentation required per Appraisal Report Contents in Chapter 11. All other VA requirements for a case submitted on the prior approval basis by an automatic lender must also be met.

Reference: See Section 5.04.

Note: Every property eligible for the Lender Appraisal Processing Program (LAPP) should be processed under LAPP. If a LAPP lender fails to process an eligible property under LAPP, the request for VA guaranty must include a **detailed explanation**.

15.08 Affiliates and Agents

Affiliates

Unless approved by VA, lenders are not authorized to use LAPP for any

- builder
- land developer
- real estate broker, or
- other entity which they own or have a financial interest in or are otherwise affiliated with.

This restriction may not apply if

- the only relationship between the lender and a builder is a construction loan, or
- the lender can provide a formal corporate agreement or other documentation which demonstrates to VA's satisfaction that the lender and builder, or other affiliate, are essentially separate entities operating independently of one another, free of all cross-influences.

The lender's quality control plan must specifically address the insulation of the fee appraiser, appraisal reviewer, and the underwriter from the influence of the affiliate.

See Section [1.07](#)

Lender/Agent Relationship

Agents can be involved in LAPP processing only when the sponsoring (funding) lender has an established ongoing agency relationship with the agent, as evidenced by a corporate resolution accepted by VA.

See Section [1.08](#).

Corporate Resolution

The corporate resolution must provide that the sponsoring lender accept full responsibility for the actions of its agents. Additionally, the sponsoring lender is responsible for assuring that the agent is appropriately trained and knowledgeable about VA appraisal assignment procedures and the restrictions on their role in LAPP.

Continued on next page

15.08 Affiliates and Agents, Continued**Agents and Appraisals**

Refer to the following table for rules regarding agents and appraisals.

If the agent ...	Then ...
is acting on behalf of an approved LAPP lender and is authorized by that lender	he or she may request VA appraisals, receive appraisal reports, and forward them to the lender's staff appraisal reviewer.
requests an appraisal	<p>he or she may use either the sponsoring (funding) lender's VA Assignment System logon or his or her own logon to request appraisals. An appraisal cannot be requested unless the sponsoring lender is known at the time of the request.</p> <p>If the agent is to receive the appraisal report, the request must include the agent's</p> <ul style="list-style-type: none"> • address in item 5 • signature in item 38 • firm's name in item 39, and • telephone number in item 40. <p><i>Note:</i> In requesting an appraisal, the authorized agent is making the required certifications on behalf of the sponsoring lender.</p>

Continued on next page

15.08 Affiliates and Agents, Continued

Agents and Appraisals (continued)

If the agent ...	Then ...
receives an appraisal report	he or she must immediately forward it to the sponsoring lender who must issue a LAPP NOV within 5 business days of the agent's receipt of the appraisal report.
contacts the fee appraiser	that contact may only be about the timeliness of the appraisal, and not about the value or condition of the property which only the lender's LAPP SAR is authorized to discuss with the fee appraiser.
does not have LAPP authority but advertises or otherwise represents in any way that he or she is "LAPP approved"	he or she will have violated a VA prohibition against such advertising or representation.
has LAPP authority	he or she cannot issue a LAPP NOV for any other lender. See Section 13.10.

1: LAPP Application**VA LENDER APPRAISAL PROCESSING PROGRAM (LAPP) APPLICATION****STAFF APPRAISAL REVIEWER NOMINEE:**_____
(full name)_____
(residential address)_____
(social security number)_____
(business address)_____
(business telephone)_____
(10-digit VA lender ID for office where reviewer located)_____
(Fax)_____
(e-mail address)**OFFICER RESPONSIBLE FOR QUALITY OF APPRAISAL REVIEWER'S WORK:**_____
(name and title)_____
(business address)_____
(business telephone)**Staff Appraisal Reviewer Nominee's Statements And Certifications:**

Previous Lapp Approval - If I was previously approved by VA as a LAPP Staff Appraisal Reviewer (SAR), the SAR ID number assigned was _____.

Disclosure Of Sanctions - I have not been suspended, debarred or had a similar sanction taken against me by any Federal or State entity or any professional organization. I am not aware of any unresolved investigation involving me. Any potential problem regarding this disclosure has been submitted to VA, and a letter from VA indicating that the problem is resolved is attached.

Conflicts Of Interest - As a LAPP staff appraisal reviewer, I understand that I may not be employed by or perform appraisal review services for any other lender and may not be on the VA fee panel. I agree to report to VA any private interests or pursuits which might be considered by VA to be a conflict of interest.

Appraisal Review Experience - As indicated in the attached resume, or statement of work experience or evidence of HUD Direct Endorsement participation, I have the requisite experience outlined in chapter 15 of the VA Lender's Handbook.

Appraisal Report Reviews - I understand that all staff appraisal reviews made for VA loan guaranty purposes must be completed in accordance with the requirements in chapter 13 of the VA Lender's Handbook. I also understand that no pressure or influence is to be exerted on the appraiser to remove or change valid appraisal report information, or to reach a predetermined value for a property.

My signature below affirms that the information I am providing in all of the above statements and certifications is accurate and true, to the best of my knowledge.

(signature of staff appraisal reviewer)_____
(date)*Continued on next page*

1: LAPP Application, Continued

SENIOR LENDING OFFICER'S STATEMENTS AND CERTIFICATIONS

STAFF APPRAISAL REVIEWER NOMINATION - The nominee is a full-time salaried employee of this company and is authorized to act on our behalf as a staff appraisal reviewer. Based on our personal interview with the nominee and a thorough review of the nominee's appraisal-related capabilities and performance, we find the nominee to be qualified as a staff appraisal reviewer in accordance with the requirements in chapter 15 of the VA Lender's Handbook. We acknowledge the responsibility that any improper actions of the nominee as a staff appraisal reviewer shall be imputed to the employer. We agree to promptly notify the appropriate VA office(s) if we ever change or limit this recommendation, or terminate our relationship with the nominee.

PROCESSING FEE - The \$100 processing fee for this nominee is attached.

PROPERTIES ALREADY VALUED - Unless VA grants authorization for a specific case, this company will not knowingly request an appraisal for a property which already has a valid value determination for VA loan purposes.

NO APPRAISAL REVIEWS FOR AFFILIATES - This company will not use LAPP for any builder, land developer, real estate broker or other entity which it owns or has a financial interest in, or with which it is otherwise affiliated. We realize that this restriction does not apply if our only relationship with a builder is a construction loan, or if VA agrees that the attached formal corporate agreement or other documentation demonstrates that we and our affiliate(s) are essentially separate entities operating independently of one another, free of all cross influences. In this latter situation, our quality control plan addresses the insulation of the fee appraiser, staff appraisal reviewer and the underwriter from the influence of the affiliate.

NO APPRAISAL REVIEWS FOR/FROM OTHER LENDERS - Although appraisal reports may be transferred from one lender to another, this company will not make VA value determinations for other mortgage lenders, nor use a value determination for VA loan guaranty purposes which was made by another mortgage lender, under any circumstances.

NO PRESSURE/INFLUENCE ON FEE APPRAISER OR STAFF APPRAISAL REVIEWER - This company will not exert pressure or influence on the fee appraiser or staff appraisal reviewer to remove or change valid appraisal report information, or to reach a predetermined value for a property.

QUALITY CONTROL SYSTEM - This company has an effective quality control or other system to ensure the adequacy and quality of its staff appraisal reviews. That system contains all of the basic elements identified in chapter 15 of the VA Lender's Handbook.

My signature below affirms that the information I am providing in all of the above statements and certifications is accurate and true, to the best of my knowledge.

(signature and title of senior officer)

(date)

Chapter 16

Common Interest Communities, Condominiums and Planned Unit Developments

Overview

What is a Common Interest Community

A common interest community is a subdivision containing common land, often including recreational amenities. That common property is typically owned by an association of the homeowners (HOA), to which they all must belong and pay lien-supported assessments for a proportionate share of the expenses of the HOA.

Condominiums and planned unit developments (PUDs) are common interest communities.

Basic VA Requirements

There are VA requirements applicable to **all properties** located in either a PUD or condominium. Also, **condominiums** (but not PUDs) must be **approved** by VA before any lots or units in the project are eligible for VA loan guaranty.

References: See Section 16-A

- *Requirements Applicable to All Properties in Common Interest Communities, and*
 - *Condominium Approval Procedures.*
-

VA Approved Condominium List

A nationwide list of VA-approved condominiums, the *Condominiums, Planned Unit Developments and Builders* list, can be reached via **The Appraisal System (TAS)**.

The internet address is <http://condopudbuilder.vba.va.gov>.

Continued on next page

Overview, Continued

**In This
Chapter**

This chapter contains the following sections.

Topic	See Page
Section A: Requirements for Properties in Common Interest Communities	16-A-1
Section B: Use of Attorney's Opinion	16-B-1

16-A.03 Table of Required Documents

Table of Required Documents

The table below identifies the documents that the VA office of jurisdiction must review in order to approve a particular condominium project.

Reference: See Section 16-A.02, Condominium Approval Procedures

Using the Table As indicated in the table, some documents are required only

- if applicable
- if the declarant is in control of the project, or
- for condominium conversion projects.

The last column indicates whether or not it is acceptable to submit a draft of the document. Recorded or existing final documents must be provided if loans have closed in the project.

	Required Document	New Project	Existing Resales	Draft
1	Declaration of Covenants, Conditions and Restrictions	Yes	Yes	Yes
2	Bylaws for HOA	Yes	Yes	Yes
3	Articles of Incorporation for HOA	If Applicable	If Applicable	Yes
4	“Umbrella” projects, Declaration, Bylaws and Articles of Incorporation, as above	If Applicable	If Applicable	Yes
5	Plat, map and/or air lot survey of project	Yes	Yes	Yes
6	Plat, map and/or air lot survey of unit(s)	If Applicable	If Applicable	Yes
7	Development plan and schedule	Yes	If Declarant Controls	Yes
8	Information or Public Offering Statement	Yes	If Declarant Controls	Yes
9	Grant/deed/leasehold agreement form	Yes	If Declarant Controls	Yes

Continued on next page

16-A.03 Table of Required Documents, Continued

Using the Table (continued)

	Required Document	New Project	Existing Resales	Draft
10	State reviewing agency's report	If Applicable	If Applicable	Yes
11	Annexation documents	If Applicable	If Applicable	Yes
12	Cross-easement(s)	If Applicable	If Applicable	Yes
13	Facility Leases	If Applicable	If Applicable	Yes
14	Management agreement	If Applicable	If Applicable	Yes
15	Service contract(s) (either form of or actual)	If Applicable	If Applicable	Yes
16	HOA budget (existing or proposed)	Yes	Yes	No
17	Current financial statements and reserves of project	If Applicable	If Applicable	No
18	Special assessments/litigation statement	Yes	Yes	No
19	Minutes of last two HOA meetings	Yes	Yes	No
20	Registered architect/engineer statement on project condition (conversions only)	If Declarant Controls	If Declarant Controls	No

Continued on next page

Appendix A: Listing of VA Offices

**How to Use this
Appendix**

This appendix provides VA office mail, telephone and website (where available) contact points.

If the contact involves a particular loan, find the location of the property securing the loan in the "Jurisdiction" column and contact the office listed next to it in the "VA Office" column.

Note: For issues involving VA Home Loan Eligibility, please reference Chapter 2, Section 2.03.

Continued on next page

Appendix A: Listing of VA Offices, Continued

VA Office	Jurisdiction	Address and Website	Phone numbers
Atlanta	Georgia North Carolina South Carolina Tennessee	Department of Veterans Affairs Regional Loan Center 1700 Clairmont Rd. PO Box 100023 Decatur, GA 30031-7023 www.vageorgia.com	888-768-2132
Cleveland	Delaware Indiana Michigan New Jersey Ohio Pennsylvania	Department of Veterans Affairs Cleveland Regional Loan Center 1240 East Ninth Street Cleveland, OH 44199 www.vba.va.gov/ro/central/cleve/loan.htm	800-729-5772
Denver	Alaska Colorado Idaho Montana New Mexico Oregon Utah Washington Wyoming	Department of Veterans Affairs VA Regional Loan Center Box 25126 Denver, CO 80225 www.vba.va.gov/ro/denver/loan/lgy.htm	888-349-7541
Honolulu	Hawaii, the Pacific Islands of American Samoa, Guam, Wake, and Midway, and the Commonwealth of the Northern Mariana Islands	Spark M. Matsunaga Bldg. VA Medical and Regional Office Center Loan Guaranty Office 459 Patterson Road Honolulu, HI 96819-1522	808-433-0480
Houston	Arkansas Louisiana Oklahoma Texas	Department of Veterans Affairs VA Regional Loan Center 6900 Almeda Road Houston, TX 77030 www.vahouston.com	888-232-2571

Appendix A: Listing of VA Offices, Continued

Office	Jurisdiction	Address and Website	Phone numbers
Manchester	Connecticut Massachusetts Maine New Hampshire New York Rhode Island Vermont	Department of Veterans Affairs VA Regional Loan Center 275 Chestnut Street Manchester, NH 03101 www.vba.va.gov/ro/manchester/lgy/main/loans.html	800-827-6311
Phoenix	Arizona California Nevada	Department of Veterans Affairs VA Regional Loan Center 3225 N. Central Avenue Phoenix, AZ 85012 www.vahomes.org/pn/	888-869-0194
Roanoke	District of Columbia Kentucky Maryland Virginia West Virginia	Department of Veterans Affairs Roanoke Regional Loan Center 210 Franklin Road SW Roanoke, VA 24011 www.vba-roanoke.com/rlc	800-933-5499
St. Paul	Illinois Iowa Kansas Minnesota Missouri Nebraska North Dakota South Dakota Wisconsin	Department of Veterans Affairs VA Regional Loan Center 1 Federal Drive Fort Snelling St. Paul, MN 55111-4050 http://www.vba.va.gov/ro/central/stpau/pages/homeloans.html	800-827-0611
St. Petersburg	Alabama Florida Mississippi	Department of Veterans Affairs VA Regional Loan Center PO Box 1437 St. Petersburg, FL 33731-1437 www.vaflorida.com	888-611-5916 (out of state) 800-827-1000 (in FL)
San Juan	Puerto Rico US Virgin Islands	VA Regional Office PO Box 364867 San Juan, PR 00936	787-772-7312 or 787-772-7314 or 787-772-7311

