

Valuation Practices during COVID-19 (Updated)

1. Purpose. On March 13, 2020, the President of the United States declared a National Emergency due to Coronavirus Disease 2019 (COVID-19). Loan Guaranty (LGY) is committed to protecting Veterans, appraisers and industry stakeholders while continuing to execute our mission of delivering VA home loan benefits. The potential risks associated with the COVID-19 provides unique challenges in the appraisal process as VA fee panel appraisers may be required to access the interior of homes. The Centers for Disease Control and Prevention (CDC) has encouraged social distancing between individuals to limit community spreading of COVID-19.

Due to the rapidly changing environment caused by COVID-19 to the mortgage lending industry as well as feedback from multiple sources, Circular 26-20-11, *Valuation Practices during COVID-19*, is rescinded effective the date of this Circular. This Circular provides updated guidance and instructions for valuation and appraising for all VA home loan purposes.

2. Background. Appraisals are performed by an appraiser on VA's fee panel to protect the interest of Veterans, lenders, servicers, and VA. VA's fee panel is comprised of independent licensed fee appraisers. The appraiser is an independent state licensed or certified professional that provides objective, impartial, and unbiased opinions about the value of real property aiding those who own, manage, sell, invest in, and/or lend money on the security of real estate. Appraisers assemble a series of facts, statistics, and other information regarding specific properties, analyze this data, and develop opinions of value. Each appraisal assignment challenges the appraiser's ability to put analytical skills into practice, exercise sound judgment, and communicate effectively, to estimate the market value of the property in accordance with the Uniform Standards of Appraisal Practice (USPAP) and VA appraisal guidelines as outlined in the [VA Pamphlet 26-7, Chapter 10 Appraisal Process \(NEW\)](#). All appraisal types, except for some liquidation appraisals, require the appraiser access and view the interior of the property. This has been normal practice in the real estate industry for decades to aid in the determination of market value and ensure real property meet the safe, sound, and sanitary requirements as outlined in the detailed list of Minimum Property Requirements (MPRs), [38 CFR §36.4347c](#).

3. Effective Dates. The policies outlined in this Circular are effective for all loans where the application date was made on, or after, the date of this Circular and until further notice or the rescission of this Circular.

4. Action. VA will change the long-standing practice of requiring access to the interior of the home for certain types of loans and characteristics of those loans. Appraisers will still follow the same procedures of the VA appraisal process and are still required to meet USPAP and state requirements for delivering an appraisal that meets those qualifications but are allowed the broader use of exterior inspection. Considering the health and safety of Veterans and VA Appraiser Fee Panel members during this national emergency, valuations may come in a form of an Exterior-Only appraisal with enhanced assignment conditions or in limited instances, a Desktop appraisal. On page 1 of the Uniform Residential Appraisal Report

(URAR), Subject section, “Map Reference” appraisers are to state “Exterior-Only” or “Desktop.” These procedures are temporary in nature and VA will return to normal operations after the national emergency.

5. Notice. USPAP Standards Rule 1-2, Standards Rule 2-2, and Advisory Opinion 2 does not require an inspection unless necessary to produce credible assignment results. Although an interior inspection would customarily be part of the scope of work for a VA appraisal assignment, health or other emergency conditions may require an appraiser to make an Extraordinary Assumption (EA) about the interior of a property. This is permitted by USPAP if the appraiser has a reasonable basis for the EA and still results in a credible analysis. The appraisers will always determine the scope of work for the assignment. All EAs will be boldly noted in the Reconciliation section of the report. The report will be completed “AS IS” unless there are MPR requirements the appraiser observed in the review of the property. Without an interior review of the property, the appraiser can make an EA concerning MPRs with the information available.

a. The appraiser will continue to gain access to view the interior property for a Purchase Transaction (vacant property). The interior inspection is allowed, when the appraiser poses no harm to themselves or others.

6. Exterior-Only Appraisal. This report option with enhanced assignment conditions will be completed on the FNMA 2055/1075 form. For manufactured homes and multi-unit (2-to-4 unit) properties, appraisers will use the 1004C or 1025 form. Appraisers are to boldly state “Per Department of Veterans Affairs, no interior inspection was provided due to COVID-19.” Exterior-Only Appraisal with enhanced assignment conditions will be limited to one and a half times the maximum 2020 Freddie Mac Conforming Loan Limit (CCL) for a one-unit limit for the county or county-equivalent area. The lender should not request an Exterior-Only appraisal if the loan amount will be more than one and a half times the maximum 2020 CCL limit. The appraiser is in control of the Scope of Work and they type of report will be used based upon safety. The 2020 CCL limits are posted at: https://www.fhfa.gov/DataTools/Downloads/Documents/Conforming-Loan-Limits/FullCountyLoanLimitList2020_HERA-BASED_FINAL_FLAT.pdf.

a. Purchase or Refinance transactions. The appraiser is to provide an Exterior Only appraisal with enhanced assignment conditions when the appraiser’s assigned geographic jurisdiction does not have restrictions imposed by authorities prohibiting individuals leaving their domicile, such as mandatory quarantine. Appraisers should refer to their state or local authorities to determine if they are deemed an essential part of the financial transaction for mortgage lending. The appraiser must make every effort to complete the enhanced assignment conditions listed below or document in the narrative why one or more conditions could not be met:

(1) The appraiser will review the full exterior of the property and provide photos of all sides of the property with detailed notes of the exterior and any visible MPRs. In instances of obstructed or restricted view and access is unable to be granted or allowed, Multiple Listing Service (MLS) photos of these areas may be utilized. If MLS photos are utilized, it must be explained in the appraisal report.

(2) A measurement of the footprint of the home should be provided if accessible. This is not to determine the gross living area (GLA) but for the appraiser to reconcile with public records.

(3) The appraiser will conduct a detailed interview over the phone with the occupant, Veteran, or real estate professional regarding the property. It is the appraiser's responsibility to obtain sufficient information to provide a creditable report. Interview questions should be noted and kept in the appraisers work file. Key items that may impact market value should be noted in the appraisal report with details about what was provided and by whom.

(4) The appraiser may utilize any and all photos available from MLS, provided by the occupant, Veteran, or real estate professional. Comparables will still be viewed and photos provided when possible.

b. Liquidation and Servicer Appraisal Processing Program (LGI/SAPP). Effective immediately, all liquidation reports will be completed on a Freddie Mac Form 2055, Exterior-Only Inspection Residential Appraisal Report. The appraiser can complete the exterior appraisal as they have historically without the need for enhanced assignment conditions outlined above.

7. Desktop Appraisal Valuations. This report option will be completed on the FNMA 1004, 1073, 1004C, 2025 and the appraiser will be required to attach a copy of the provided Scope of Work (SOW) Exhibit A, certifications, and assumptions in all reports. Appraisers are to boldly and inconspicuously state "Per Department of Veterans Affairs, no interior inspection was provided due to COVID-19".

a. Desktop valuations will be limited to the maximum 2020 Freddie Mac Conforming Loan Limit for a one-unit limit for the county or county-equivalent area. The lender should not request a Desktop Appraisal if the loan amount will be more than the maximum 2020 CCL limit.

b. Desktop appraisals will only be conducted when the appraiser's assigned geographic jurisdiction has restrictions imposed by authorities prohibiting individuals leaving their domicile, such as mandatory quarantine or not deemed an essential part of the financial transaction for mortgage lending. Lenders must state in both in "public" notes in WebLGY and by e-mail to the appraiser if they will accept a Desktop appraisal. If the lender will not accept a Desktop appraisal, the appraiser will advise the Regional Loan Center (RLC) to place the assignment on hold for 30 days and then subsequently cancel, if the status has not changed. The appraiser will annotate "public" notes in WebLGY updates on all communication between parties.

(1) Purchase transactions. The appraiser defines the scope of the work and will annotate in the appraisal report concerning the source of information provided.

(2) Cash-Out Refinance Transactions. The appraiser will prioritize assignments based on purchase transactions first and determine if sufficient information is publicly available and verifiable. Appraisers are not required to proceed on the assignment if information is not available to provide a credible report. In the event the appraiser is not able to complete the assignment, the lender may choose to cancel the request or have the RLC suspend the assignment until the national emergency is lifted and a more detailed report can be produced.

(3) Liquidation Transactions. Desktop valuations will not be utilized for liquidation purposes.

c. VA understands that there may be insufficient data available to produce a creditable report. Appraisers are not required to accept a Desktop valuation order. In addition, the use of Assisted Appraisal Processing Program (AAPP) is not authorized for Desktop appraisals. When an appraiser believes the scope of work required to develop a credible report is not capable in a Desktop appraisal, the appraiser must contact the RLC to place the assignment on hold.

8. Reconsideration of Value. In times of uncertainty, the housing market strengths may be less predictable to report. Appraisers will have comparable sales that took place prior to the President declaring a national emergency and active and pending sales can be less predictable. During this time, it is important to ensure that Veterans continue to be able to purchase a home. VA, the lender, and the appraiser will work together during this time to assist in the best possible outcome for the Veteran.

a. Purchase Transactions. Reconsideration of Values (ROV) for purchase transactions will be restricted to no greater than 7 percent from the appraiser's opinion of value or \$10,000 whichever is greater. An ROV may be requested when the value requested is greater than stated but the ROV amount must fall within the range of adjusted values in the sales grid of the appraisal or overwhelming evidence of appraisal error that impacts value. The same criteria is required as outlined in VA Pamphlet 26-7, Chapter 10 Appraisal Process (NEW), Section 22. In addition, a field review by VA RLC staff will not be a completed in conjunction with the ROV request.

b. Cash-Out Refinance Transactions. VA will suspend ROV requests for cash-out refinance loans until further notice.

c. Liquidation Transactions. VA will suspend ROV requests for liquidation loans until further notice.

9. Memorandum of Values. In extreme cases when an appraiser is not available to complete an appraisal assignment for a purchase, VA has the authority and ability to issue a Memorandum of Value (MOV). This will be completed on a case-by-case basis.

10. Alteration and Repair Loans. Appraisers are to suspend any alteration and repair assignments until further notice.

11. Repair Inspections. Due to the lack of verification of completion by the appraiser or inspector that repair items have been completed, lenders have one of the two following options to supply to VA. This section applies to any and all loans regardless of the loan application date.

a. Lenders have the authority and are encouraged to certify repairs, especially repairs performed by licensed personnel, instead of an appraiser certification as outlined in the VA Pamphlet 26-7, Chapter 10 Appraisal Process (NEW), Section 23, Topic b. Repair certifications which may involve lead-based paint must still be completed by a fee appraiser; however, the lender can escrow for future inspection and costs with a third-party. Lenders may hold funds in escrow for repairs to be completed after closing.

b. All repairs must be completed and escrowed funds distributed before the loan may be guaranteed by VA as outlined in the VA Pamphlet 26-7, Chapter 12 Minimum Property Requirements (NEW), Section 44, Topic e. In addition, there must be adequate assurance that the work will be completed timely and satisfactorily (up to 180 days).

c. When a purchase transaction appraisal has found repairs, the lender has the option to close the loan when the Veteran accepts responsibility to complete the repairs within 180 days of the closing of the loan. This time may be extended if warranted. The home must be habitable by conventional standards. Reinspection will be required at that time at the posted fees.

12. Termite Inspections. VA Pamphlet 26-7, Chapter 12 Minimum Property Requirements (NEW), Section 33, Topic b, requires a wood inspection report if the property is located in an area on the Termite Infestation Probability Map where the probability of termite infestation is "very heavy" or "moderate to heavy".

a. Purchase Transactions: If there is no known or visible evidence of termite infestation present, the seller and realtor must provide a certification to that fact and the Veteran must acknowledge that no inspection was completed. VA recommends the Veteran to complete an inspection once the national emergency has ended. If there is known or visible evidence of termite infestation, a clear termite report must be provided within one year of close of escrow.

b. Cash-Out Refinance Transactions: The Veteran can provide a certificate of fact if there is no known or visible evidence of termite infestation present. If there is known or visible evidence of termite infestation, a clear termite report must be provided within one year of close of escrow.

13. Any additional NOV conditions. Any additional items that need to be met on the NOV to comply with VA requirements will have to be met in 180 days from the date of the NOV issuance. All conditions must be completed before the loan will be guaranteed by VA. Any clear and obvious minimum property requirement (MPR) related issues that would render the home uninhabitable will not be able to be issued a guaranty till all repairs are completed. The Veteran must acknowledge and accept any and all conditions not met prior to closing.

14. Appraiser Information. The appraiser defines the scope of the work and they must have enough information to provide a creditable report. The appraiser will need to rely upon all publicly discoverable records, MLS photos and commentary, real estate professionals and homeowners. It is imperative this information is documented and retained. Key items that may impact market value should be noted in the appraisal report with details about what was provided and by whom. When relying upon photos provided by another party or from the MLS, it should be noted in the report. When the appraiser believes that the assignment is too complex to be completed by a Desktop or Exterior-Only appraisal, the appraiser is to contact the RLC and the lender to place the assignment on hold.

15. Communication. To keep Veterans and appraisers safe while continuing the mission of the VA Home Loan program, communication between the Veteran, lender, appraiser and other stakeholders is key during this time. Below is the guidance being provided.

a. Veteran.

(1) If the appraiser is scheduled to complete an interior review of the property and you or another occupant of the home is experiencing flu like symptoms, such as fever, cough or shortness of breath, or have tested positive for COVID-19, you must notify the lender immediately.

(2) If you are initiating the ROV process, please notify and provide your lender any evidence/justification in support of the request.

b. Lender.

(1) If the appraiser is scheduled to complete an interior review of the property and the Veteran notifies you of a change in his/her or another occupant of the home's health, please notify the appraiser immediately.

(2) Ensure the appraiser has the necessary interior or exterior access to the property.

(3) Provide any MLS photos or other supporting evidence so the appraiser can provide a creditable report.

(4) Communicate with the appraiser, Veteran and VA throughout this process both by e-mail, phone and "public" notes in WebLGY

c. Appraiser. VA understands that appraisers may experience operational delays as a result of COVID-19; however, every effort should be made to complete the appraisal within state defined timeframes outlined at:

https://www.benefits.va.gov/HOMELOANS/appraiser_fee_schedule.asp.

(1) Please contact the RLC of jurisdiction or the point of contact for the scheduled appointment if you have tested positive for COVID-19 or have a change in your health status that would prevent you from completing an assignment. The RLC will temporarily take you out of rotation for new appraisal assignments.

(2) Communicate with lender, clients and VA throughout this process both by e-mail, phone and "public" notes in WebLGY.

(3) In circumstances where timelines may be extended, the appraiser must clearly document WebLGY in the "public" notes and communicate directly with the lender.

16. Fees. Fees for services will remain as posted at https://www.benefits.va.gov/HOMELOANS/appraiser_fee_schedule.asp. Fees for Exterior- Only appraisal with enhanced assignment conditions or a Desktop appraisal will remain the same as an Interior appraisal. VA may require appraisers to complete additional inspections to be added to the appraisal within one year of completing an Exterior-Only or Desktop appraisal under the same fee payment. VA may require this for complete sketches, interior photos, etc. Any MPR re-inspections on the exterior will be charged at the posted fees.

17. For additional questions, please contact your VA RLC by calling 1-877-827-3702, option #6 within the hours of operation between 8am to 6pm EST.

18. Rescission: This Circular is rescinded April 1, 2021. Circular 26-20-11 is rescinded effective immediately.

By Direction of the Under Secretary for Benefits

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Loan Guaranty Service