

Date: February 20, 2008

From: Valuation Officer, Houston RLC

Subj: Changes & Clarifications to Valuation Requirements

To: Texas, Oklahoma, Louisiana, & Arkansas Fee Appraisers

1. Exterior-Only Appraisals: When completing a *liquidation appraisal* for a property that is occupied and access has been denied, the appraiser must use the Exterior-Only Residential Appraisal Report, Freddie Mac Form 2055/Fannie Mae Form 2055. *(If the property is a condominium, manufactured home, or income producing property, please use the form appropriate for that type property.)*
2. Any Qualified Veteran: VA has received feedback that lenders sometimes need to delay loan closing to await a name change on an appraisal report. To help eliminate such unnecessary delays at loan closings, appraisers must input "Any Qualified Veteran," rather than the veteran's name, in the borrower's field of the appraisal report and any other area where the borrower's name is shown. Because this change helps to limit the disclosure of veterans' personal identifiable information it also applies to Liquidation appraisals, *including the owner of public record field on liquidation appraisals.* (See attached VA Circular 26-07-01).
3. Model Homes: Appraisers are now authorized to use model homes, in lieu of construction exhibits (plans and specifications), to appraise "Proposed or Under Construction" properties (see attached VA Circular 26-07-03). *This policy is not applicable to "New Construction – Existing" properties.*

The model home must be:

- Fully completed;
- The same plan type as the subject home;
- Located in the same market area; and
- Readily accessible to the assigned fee appraiser.

The appraisal must be performed according to VA requirements for Proposed Construction. In the "Comments" section at the bottom of page 1 of the URAR, the appraiser must insert the following statement:

"Appraisal from Model Home. Value has been based on an inspection of a model home of the same plan type as the subject. Construction to be completed according to contract dated _____."

4. Declining Markets: Certain areas around the country are experiencing what is frequently referred to as a “declining market.” We recognize that some lenders may object to receiving appraisal reports that contain comments or analyses of negative market conditions and, consequently, may request that such items be removed. VA expects appraisal reports to contain negative comments when they accurately reflect market conditions. Be assured that VA has no objection to guaranteeing a VA loan in a declining market area as long as the appraiser has properly documented the facts of the case. Furthermore, secondary market sources have indicated that they will purchase VA loans in declining markets as long as the appraisal analysis is proper and complete. (See attached VA Circular 26-07-4 regarding this issue as well as other considerations for the appraiser concerning Market Trend Indicators and Analysis).

5. Sales Concessions: The appraiser is required to make market-based adjustments to comparable sales for any sales or financing concessions that may affect sales prices. If comparable sales involve concessions, the effect of the concession on the sales price of the comparables should be noted in the report. In doing so, the appraiser should consider:
 - that the effect of financing/sales concessions can vary in different locales.
 - that the amount of any adjustment should generally be based upon the real estate market reaction to the concession, and not on the dollar-for-dollar cost of the concessions(s) to the seller, and
 - in proposed construction cases – sales by the same builder, sales by other builders, sales in competitive neighborhoods, and re-sales of similar existing properties.

The adjustment for each comparable sale must reflect the difference between the sales price with the sales concessions and what the property would have sold for without the concessions. In the Sales Comparison Analysis, Sales or Financing Concessions Section, the appraiser must report adjustments applicable to each comparable sale listed and explain the basis for that adjustment. Comments should also be made in the Neighborhood -Market Conditions section on the front page of the URAR regarding impact of sales concessions on prices.

6. Liquidation Addendum: Every liquidation appraisal must include an addendum. The addendum must show the VA case number, information on attempts to gain access, whether the property is vacant or occupied, repairs needed, estimated cost and contributory value of repairs and an analysis of listings and offerings. There is an example of this addendum in the Fee Appraiser’s Training Guide *and* in the VA Lender’s Handbook (Chapter 11).

Please contact me with any questions or concerns you may have regarding the issues listed above.

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