



DEPARTMENT OF VETERANS AFFAIRS

Regional Loan Center

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Website: <http://www.vba.va.gov/ro/phoenixlgy/index.htm>

August 23, 2001

Loan Guaranty Information Bulletin No. 26-01-15

**SUBJ: Value Determinations Involving Options on Proposed Construction
Master Certificates of Reasonable Value (MCRV) - Increase in Allowable
Percentage**

PURPOSE:

For several years, the Department of Veterans Affairs (VA) offices in Phoenix, Oakland, Los Angeles, and San Diego have restricted optional items and upgrades on homes from Master Certificates of Reasonable Value (MCRV) to no more than 7 per cent of the base plan value of the home. After consultation with building industry representatives from Arizona, California and Nevada, we are pleased to announce that the **options limitation will be raised to 15 percent effective September 1, 2001.**

This change in options policy applies uniformly to all MCRV properties in Arizona, California, and Nevada and is being announced jointly by all four VA offices serving those three states. Additionally, this bulletin eliminates policy and procedural inconsistencies that arose among the stations.

KEY POINTS:

- This change applies to all sales involving lots and plan types listed on any outstanding Master Certificate of Reasonable Value issued by any of the four referenced VA offices. It is effective for any MCRV transaction in which the veteran has signed the purchase contract (or addendum) ***on or after September 1, 2001.***

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- For purposes of clarity and completeness, the entire options policy is restated here, including those aspects of the former procedure that have not changed. Option-related procedures and processing requirements as outlined in ***previous Information Bulletins are superseded*** by those summarized in the following pages.

SUMMARY OF REVISED PROCEDURES:

1. A veteran purchaser may select any optional items or upgrades that are typically available to non-veteran purchasers, provided that:

- such items have not been specifically prohibited by VA (i.e., personal property items such as blenders, fireplace equipment, furniture, drapes, rugs, etc.); and
- the combined value of the options selected ***does not exceed 15% of the Reasonable Value assigned by VA for the base plan type (excluding any lot premium)***.

Example: MCRV Plan "A" has an established value of \$170,000.

This home is on a lot with an assigned lot premium of \$4,000. The total value of all options selected may not exceed \$25,500 [i.e., \$170,000 X .15]. The maximum total reasonable value of this property would be \$199,500 [i.e., \$170,000 + \$4,000 + \$25,500].

2. In preparing the proposed option lists, use of VA Form 1843b is no longer required but remains acceptable. In place of the 26-1843b, requesters may use their own option sheet format on the builder's or lender's letterhead or any other reasonable format that adequately describes each option or upgrade. Each page must clearly show the MCRV case number and the subdivision or project name. Option sheets are to be submitted directly to the assigned fee appraiser and compliance inspector along with the other required MCRV exhibits.

3. A fee of ***\$25 per page*** may be charged in lieu of the \$2.00-per-line-item fee variously allowed by some offices in previous bulletins.

Note: Option sheet size may not exceed standard legal-size (8 ½ by 14) paper. ***Option lists must be legible.*** Options that are not legible will not be accepted by the fee appraiser and may be returned for correction.

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4. The assigned fee appraiser will determine whether the options listed on the builder's option sheet(s) are typical for the area. The fee appraiser will also compare the options that are requested for each plan type with the basic plans and specifications package for possible duplication. If an item requested on the option sheet is also shown as a standard feature, the fee appraiser will disallow that item by striking a line through it on the sheet. After the appraiser has completed the MCRV report, it will be submitted to VA for review and issuance of the MCRV by VA staff. This will include VA Staff Appraiser review (and possible adjustment) of the fee appraiser's assigned values. The reviewed option sheets will be stamped "Approved by VA " or otherwise annotated as evidence of VA concurrence with the fee appraiser's values.

5. A builder may request additional options to be added to the MCRV during the validity period. The procedure is the same as for the option lists submitted with the original MCRV request and the appraisal fees cited above also apply. After valuing these additional options, the assigned appraiser will submit the approved option sheet(s) to VA for review and concurrence as described above.

6. If a veteran-purchaser wishes to include optional items that have been denied by the fee appraiser or would exceed the 15% allowance, he or she is free to do so. That is a matter strictly between the veteran and the builder. However, this would necessitate the **veteran paying cash** for the additional optional items (or to cover the amount by which the total option cost exceeds the 15% limitation).

7. When submitting individual loan transactions from an MCRV, lenders must include, as part of the guaranty package, a photocopy of the original MCRV, including the approved option sheet(s) that have been stamped or countersigned by VA. Highlight, using colored ink, the specific options that have been selected by the veteran-purchaser. These highlighted options must also be specified on the sales contract (or addendum). Remember, the total reasonable value of all optional items may not exceed 15% of the home's base plan value.

IMPORTANT: With each submission of an individual loan transaction that includes optional items, the Lender must provide the following certification: "In accordance with Loan Guaranty Information Bulletin 26-01-15, the total dollar value of all optional items and upgrades included in this transaction does not exceed fifteen (15) percent of the established MCRV base plan value."

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8. Prior to the **final** compliance inspection, the lender or builder must provide the compliance inspector with a copy of the signed sales contract or addendum to the sales contract, noting the options selected by the veteran. It will be the compliance inspector's responsibility to verify that the options listed on the sales contract are on the approved option list *and* that these items have been installed and are present in the finished home.

9. Note that the option procedures outlined in this bulletin apply **only** to MCRV processing. They do not apply to proposed or new construction individual (spot) appraisals, where the appraiser determines contributory value of options/upgrades based on comparison of the subject with the comparable sales and making market-derived adjustments on the URAR grid.

10. If you have any questions regarding these revised procedures you may contact the Construction and Valuation Section by phone (602) 627-3050, by fax (602) 627-3222, or by e-mail VAVBAPHO/RO/CVGC@vba.va.gov.

/Signed/

ROBERT JOHNSON
Loan Guaranty Officer

RECISSION: LGIB 26-00-16, dated May 26, 2000

DISTRIBUTION: Lenders, Builders, Fee Appraisers, and Compliance Inspectors in Arizona and Southern Nevada