DEPARTMENT OF VETERANS AFFAIRS
Regional Office
210 Franklin Road S.W.
Roanoke, VA 24011

February 22, 2006

LOAN GUARANTY INFORMATION LETTER #26-06-1

TO: ALL LENDERS, COMPLIANCE INSPECTORS and FEE APPRAISERS

SUBJ: PROCEDURES MODIFICATION FOR PROCESSING PROPOSED AND UNDER CONSTRUCTION CASES

Purpose:

This letter will provide information to program participants on procedural changes that will facilitate compliance with new Department of Veterans Affairs (VA) requirements for proposed construction cases. These changes will result in streamlined processing and reduction of paperwork.

Background:

Historically, VA has required fee compliance inspections at the foundation, framing, and final stages of construction for all proposed and under construction cases. When the VA inspection requirement was established, few local authorities had acceptable building standards and/or performed inspections during construction of residential properties. Over the years, however, many local authorities (building departments) adopted comprehensive residential building codes, developed intensive inspector training programs, and implemented thorough inspection programs. It is not unusual for local building departments to perform mandatory inspections equivalent to those required by VA at the foundation, framing, and final stages of construction. Duplication of local building department inspections by VA has been determined to be unnecessary.

DETAILS. For VA proposed or under construction cases:

a. If the local authority performs the required foundation, framing, and final inspections and issues a Certificate of Occupancy (CO) or equivalent, VA will accept the CO for the property as evidence of local authority inspections and satisfactory completion of construction. VA assistance with construction complaints will be limited to defects in equipment, material, and workmanship reported during the required 1-year VA builder's warranty period.

b. If the local authority performs the required three inspections but does not issue a CO or equivalent, VA will accept copies of the inspection reports, which verify full compliance with local building codes, or a written statement from the local authority that states that the required three inspections were performed satisfactorily as evidence of satisfactory completion of construction. VA assistance with construction complaints will be limited to defects in

equipment, material, and workmanship reported during the required 1-year VA builder's warranty period.

c. If the local authority does **not** perform the required inspections, the property must be covered by a 10-year insurance backed protection plan that is acceptable to the Department of Housing and Urban Development (HUD), and a 1-year VA builder's warranty. In addition:

- The lender is to certify that the property is 100 percent complete (both on-site and off-site improvements) and that it meets VA's Minimum Property Requirements for existing construction.

- VA assistance with construction complaints will be limited to defects in equipment, material, and workmanship reported during the required 1-year VA builder's warranty period.

ACTION.

a. Effective immediately, for proposed and under construction cases, VA will accept the construction inspections performed by the local authority, which verify full compliance with local building codes, in lieu of the three VA compliance inspections. The Notice of Value (NOV) must be acceptably completed with the lender obtaining the requisite exhibits that follow. This action will eliminate duplicative and unnecessary VA compliance inspections.

b. When issuing NOVs for proposed and under construction properties, VA and Lender Staff Appraisal Reviewers are to determine to their satisfaction whether local inspections are performed and adhere to the following procedures:

c. Where local authority performs inspections:

- Check Items 12 and 12a in the Conditions/Requirements section of the NOV.

- Check Item 17 (Proposed Construction) and Item 19 (Construction Warranty) in the Conditions/Requirements section of the NOV.

- Check Item 20 (Other Conditions) and insert the following statement:

  "All construction inspections have been or will be performed by the local building-code enforcement authority in accordance with its policies and procedures with satisfactory results."

- Call for all other applicable proposed construction conditions and requirements on the NOV.

d. Where local authority does **not** make inspections:

- Check Items 12 and 12a in the Conditions/Requirements section of the NOV.

- Check Item 13 (Ten-Year Insured Protection Plan) in the Conditions/Requirements section of the NOV.

- Check Item 17 (Proposed Construction) and Item 19 (Construction Warranty) in the Conditions/Requirements section of the NOV.

- Check Item 20 (Other Conditions) and insert the following statement:

  "The lender is to certify that the property is 100 percent complete (both on-site and off-site improvements) and that it meets VA's Minimum Property Requirements for existing construction."

- Call for all other applicable proposed construction conditions and requirements on the NOV.

e. The acceptance of local authority inspections described in this circular does not eliminate the requirement for a 1-year VA builders warranty as required by Section 10.09 of VA Pamphlet 26-7 (Lenders Handbook).

f. VA compliance inspections are to be performed in all Specially Adapted Housing cases.

g. These new procedural modifications will be incorporated in VA Pamphlet 26-7.

h. The builder must have a valid builder identification number for a VA NOV to be issued and meet any State and/or local licensing requirements.

i. Construction exhibits must continue to be provided to the appraiser with the request to appraise properties as proposed or under construction.

For Assistance:

You may contact the VA at the Roanoke Regional Loan Centers General Mailbox at vavbaroa/ro/cv@vba.va.gov or, for direct assistance call this office at (800) 933-5499 to speak with either: Greg Shelton, Assistant Valuation Officer (ext 3179) or email at greg.shelton@vba.va.gov or Monte Gustafson, Assistant Valuation Officer (ext 5063) or email at monte.gustafson@vba.va.gov.

WENDY TORRES
Acting Loan Guaranty Officer