

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

Subject: Transmittal of Change 1 to VA Pamphlet 26-7, Revised, VA Lender's Handbook

Purpose

Enclosed is Change 1 to VA Pamphlet 26-7, Revised, VA Lender's Handbook, Guaranty of Loans to Veterans. The material that has been added, revised, moved or otherwise changed is highlighted. The Handbook pages affected are: 10-5, 10-6, 10-8, 10-9 (**material deleted**), 10-18, 10-19, 10-20, 10-21, 11-22, 13-14, 13-21, 15-4, and 16-A-2.

Changes

Chapter 10

- Section 10.04 is changed to mention (under "Procedure") that more detailed guidance for requesting an appraisal is now provided in Figure 2. Also, information regarding cases in which the veteran is acting as the general contractor has been moved from Section 10.08 to "Step 3".
- Section 10.05 is changed to provide an overview of "Proposed or Under Construction" cases. Details about such cases have been moved to Section 10.09.
- Section 10.08 is changed to reorganize and revise the information under "Construction Exhibits and Inspections" and "Construction Warranty" for better clarity. Also, a limited exception is now provided to the requirement for either a one-year VA builder's warranty or a ten-year insured protection plan.
- Section 10.09 is changed to provide information only about "Proposed or Under Construction" cases and to revise that information for better clarity. Information about ten-year protection plans is now found both in Section 10.09 and in Section 10.08 ("New Construction").
- Figure 2 ("VA Appraisal Request Checklist") is added to provide more detailed guidance.

Chapter 11

- Section 11.12 is changed (under "Properties Subject to Flooding") to reflect the fact that, although fee appraisers are not responsible for determining if the elevation of the lowest floor is below the 100 year flood level or if the property is subject to regular flooding, they must notify VA and the lender if there is an indication that such a problem exists.
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Continued on next page

Changes Chapter 13
(continued) —

- Section 13.06 is changed to delete references to planned unit developments under “NOV Item – PUD Condominium Requirements”, since this requirement applies only to condominiums. “NOV Item – Water/Sewer System Acceptability” is changed to clarify requirements for individual septic systems (including pit privies), as well as address spring or cistern water supplies and include additional references. “NOV Item – Construction Warranty” is revised for better clarity and to provide a reference for cases involving a ten-year protection plan.

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Chapter 15

- Section 15.01 is changed (under “Location of SAR”) to eliminate any restriction on the location of the lender’s staff appraisal reviewer.

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Chapter 16

- Section 16-A.01 is changed by adding an “Introduction” to clarify VA requirements with regard to properties located in condominiums and other planned unit developments. Typographical errors are corrected under “Acceptable Title”.

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

VA Lender’s Handbook Changes

VA Pamphlet 26-7, “VA Lender’s Handbook, Revised” is changed as follows:

- **Pages 10-5 through 10-10:** Remove these pages and substitute pages 10-5 through 10-10 attached.
- **Pages 10-17 through 10-22:** Remove these pages and substitute pages 10-17 through 10-22 attached.
- **Page 10-31:** Remove this page and substitute pages 10-31 through 10-33 attached.
- **Pages 11-21 and 11-22:** Remove these pages and substitute pages 11-21 and 11-22 attached.
- **Pages 13-13 and 13-14:** Remove these pages and substitute pages 13-13 and 13-14 attached.
- **Pages 13-21 and 13-22:** Remove these pages and substitute pages 13-21 and 13-22 attached.
- **Pages 15-3 and 15-4:** Remove these pages and substitute pages 15-3 and 15-4 attached.
- **Pages 16-A-1 and 16-A-2** Remove these pages and substitute pages 16-A-1 and 16-A-2 attached.

Loan Guaranty Service

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>Every property eligible for the Lender Appraisal Processing Program (LAPP) should be processed under LAPP.</p>
2	<p>Access the VA Assignment System (VAAS) per Section 10.03, and provide all necessary information about the case. VAAS 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• produce a completed VA Form 26-1805-1, VA Request for Determination of Reasonable Value, which includes the above information.

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, telefax or mail the VAAS-generated VA Form 26-1805-1 and any other required documentation to the appraiser assigned. Keep a copy for your records.</p> <p>If a liquidation appraisal, 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 “Proposed or Under Construction”, also</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.

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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

10.08 New Construction

Definition 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 (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”, see Section 10.05 (“Proposed or Under Construction” and “Existing Construction”).

Construction Exhibits and Inspections 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.

Continued on next page

10.08 New Construction, Continued

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.” See Section 13.06, “Not Inspected Acknowledgment.”
- a one-year VA builder’s warranty on VA Form 26-1859, Warranty of Completion of Construction. See Section 13.06, “Construction Warranty”.

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.” See Section 13.06, “Not Inspected Acknowledgment”.
- evidence of enrollment of the property in a ten-year insured plan acceptable to HUD. 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 as 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.”
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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*.
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Construction Exhibits

Construction exhibits must be provided with the request to appraise properties as “proposed or under construction”. 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 (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 (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 (See “Construction Warranty” below), or
- VA can rely on local building authority inspections in lieu of first and second stage VA inspections (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.

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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 (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".

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.)
 - a) Common interest community (Sections 16-A.01 and 16-A.02)
 - b) Manufactured or modular home
 - c) Existing property to have major alterations or improvements prior to loan closing
 - d) Refinance only for interest rate reduction purposes
 - e) Partial release of the security for an existing loan
 - f) Conversion of a HUD value determination (Section 10.11)
 - g) Foreclosure on a defaulted loan

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.

11.12 Other Property Types and Situations, Continued**Properties Subject to Flooding**

Special Flood Hazard Areas (SFHAs) are those areas in 100-year floodplains delineated on Federal Emergency Management Agency (FEMA) flood maps. SFHAs are usually designated Zones A, AO, AH, AE, A99, VO, VE, or V. Older maps use numbered A and V Zones (for example, A2, V30).

The appraiser must

- check FEMA flood map(s) for the area in which the property is located
- notify VA and the lender if **it appears that** the property **may not be** eligible for **VA** appraisal because
 - **it is** proposed or new construction **and there is an indication** that the elevation of the lowest floor below the base flood level (100 year flood level). See [24 CFR 200.926d\(c\)\(4\)](#), or
 - **there is an indication that it is** subject to regular flooding, for whatever reason. **Regular flooding would cause** the property to not meet VA Minimum Property Requirements whether or not it is located in a SFHA.
- If the property is eligible for appraisal and located on a flood map
 - identify the map number and flood zone on the appraisal report, whether or not the property is located in a SFHA.
 - If any part of the dwelling is in a SFHA, provide appropriate information in the “Site” section of the appraisal report.
 - If a “master” appraisal, provide a list of the lots located in a SFHA.

Flood insurance is not required in Zones B, C, X, and D.

Also see “Properties in Coastal Barrier Areas” below.

[\[24 CFR 200.926d\(c\)\(4\)\]](#)

Properties in Coastal Barrier Areas

Properties located in a Coastal Barrier Resources System (CBRS) area, as delineated on a CBRS map, are not eligible as security for a VA-guaranteed loan. Affected areas include portions of the Great Lakes, Gulf coast, Puerto Rico, Virgin Islands, and the Atlantic coast.

Appraisers who work in CBRS areas must obtain the appropriate maps from the U.S. Geological Survey. Prohibited areas on the maps are those inside the solid heavy black lines.

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13.06 Notice of Value Conditions and Requirements, Continued**Table of NOV Conditions & Requirements (continued)**

NOV Item	Instructions for Preparing the NOV
Condominium Requirements	<p data-bbox="464 457 1386 493">Check the appropriate items if the property is located in a condominium.</p> <p data-bbox="464 531 1435 642">Important: The project must be acceptable to VA, and all project approval-related requirements satisfied, for the property to be eligible for VA loan guaranty.</p> <p data-bbox="464 680 964 716">Reference: See Chapter 16, Section A.</p>
Water/Sewer System Acceptability	<p data-bbox="464 722 1308 758">Check the appropriate items for a property served by an individual</p> <ul data-bbox="464 798 1419 989" style="list-style-type: none"> <li data-bbox="464 798 886 833">• water supply, such as a well, or <li data-bbox="464 842 1419 989">• septic system in all cases appraised as “proposed or under” construction, and in “new” and “existing” construction cases in which there is an indication of a problem or the property is in an area known to have soil percolation problems. <p data-bbox="464 1039 1419 1150">A spring or cistern water supply or pit privy may be acceptable in areas where they meet the standards of the locality and are properly constructed. Lenders should contact the VA office of jurisdiction regarding such cases.</p> <p data-bbox="464 1188 618 1224">References:</p> <ul data-bbox="464 1230 951 1400" style="list-style-type: none"> <li data-bbox="464 1230 732 1266">• Item 5 on the NOV <li data-bbox="464 1274 951 1310">• Section 10.10 (“Required Exhibits”) <li data-bbox="464 1318 672 1354">• Section 12.08. <li data-bbox="464 1362 938 1400">• Section 14.02 (“Third Inspection”).
Connection to Public Water/Sewer	<p data-bbox="464 1407 1411 1518">Check the appropriate items if the property is served by an individual well or septic system and there is an indication that public water or sewer is available.</p> <p data-bbox="464 1556 618 1591">References:</p> <ul data-bbox="464 1598 732 1686" style="list-style-type: none"> <li data-bbox="464 1598 732 1633">• Item 6 on the NOV <li data-bbox="464 1642 672 1686">• Section 12.08.
Private Road/Common Use Driveway	<p data-bbox="464 1692 1435 1761">Check this item if access to the property is by a private road or common-use driveway.</p> <p data-bbox="464 1799 618 1835">References:</p> <ul data-bbox="464 1841 732 1921" style="list-style-type: none"> <li data-bbox="464 1841 732 1877">• Item 7 on the NOV <li data-bbox="464 1885 672 1921">• Section 12.05.

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13.06 Notice of Value Conditions & Requirements, Continued

Table of NOV Conditions & Requirements (continued)

NOV Item	Instructions for Preparing the NOV						
<p>Construction Warranty</p>	<p>Check this item if the property was appraised as either</p> <ul style="list-style-type: none"> • “proposed or under construction,” or • “new construction” and the builder will provide a one-year VA builder’s warranty (instead of a ten-year insured protection plan). <p>In both of the above situations, the veteran purchaser must be provided with a one-year builder’s warranty on VA Form 26-1859, Warranty of Completion of Construction, signed by an authorized official.</p> <p>See “NOV Item – Ten Year Insured Protection Plan” in this Section if the property will be covered by a ten-year protection plan.</p> <p>Use the following to determine how to handle cases involving manufactured homes classified as real estate.</p> <table border="1" data-bbox="483 1073 1419 1528"> <thead> <tr> <th data-bbox="483 1073 883 1115">When cases ...</th> <th data-bbox="883 1073 1419 1115">Then ...</th> </tr> </thead> <tbody> <tr> <td data-bbox="483 1115 883 1262">processed as “proposed or under construction” (See the definition in Section 10.10)</td> <td data-bbox="883 1115 1419 1262">the contractor responsible for the construction of the foundation and other onsite features must provide the one-year warranty.</td> </tr> <tr> <td data-bbox="483 1262 883 1528">involve a new manufactured home unit</td> <td data-bbox="883 1262 1419 1528">the manufacturer must provide the purchaser with a one-year warranty on VA Form 26-8599, Manufactured Home Warranty. <i>Note:</i> This warranty will cover the manufactured home unit only.</td> </tr> </tbody> </table>	When cases ...	Then ...	processed as “proposed or under construction” (See the definition in Section 10.10)	the contractor responsible for the construction of the foundation and other onsite features must provide the one-year warranty.	involve a new manufactured home unit	the manufacturer must provide the purchaser with a one-year warranty on VA Form 26-8599, Manufactured Home Warranty. <i>Note:</i> This warranty will cover the manufactured home unit only.
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15.01 LAPP Eligibility, Continued

SAR's Work Experience Requirements

The SAR's work experience must indicate that he or she has

- general knowledge of the principles, methods, practices and techniques of appraising and the ability to apply that knowledge
- the ability to review the work of others and recognize deviations from accepted appraisal principles and practices
- the ability to detect errors in computations, and
- ability to detect conclusions which are not supported.

It is also desirable for the SAR to have

- knowledge of general realty practices and principles related to real property valuation
- skill in collecting and assembling data, and
- ability to prepare clear and concise reports.

Note: Three years' experience related to the HUD Direct Endorsement program satisfies the experience requirement, provided all other application requirements are satisfied.

Location of SAR

There is no restriction on the location of a lender's SAR.

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16-A.01 Requirements Applicable to All Properties in Common Interest Communities

Introduction

While only condominiums must be approved by VA, lots or units securing VA loans in condominiums and other planned unit developments must meet both title and lien-related VA regulatory requirements. The lender is responsible for ensuring that these requirements are met for each VA loan. Although there is no specific VA requirement that lenders maintain evidence in the loan file that these requirements are met, they may wish to be guided by the advice of their legal counsel in this regard.

Acceptable Title

The title requirements for every VA loan located in a common interest communities, are stated in VA regulations ([38 CFR 36.4350](#)). These requirements indicate

- the estate must not be less than fee simple, except under certain circumstances ([38 CFR 36.4350\(a\)](#))
- title must **not** be subject to unreasonable restrictions **on** use and occupancy, except under certain circumstances ([38 CFR 36.4350\(b\)](#)), and
- certain minor title limitations will not be considered by VA, to the extent described, as materially affecting the value of the property ([38 CFR 36.4350 \(c\)](#)).

[38 CFR 36.4350]

[38 CFR 36.4350 (a)]

[38 CFR 36.4350 (b)]

[38 CFR 36.4350 (c)]

Superior VA Lien

VA regulations require that every VA loan be secured by a first lien on the property, except under certain circumstances. ([38 CFR 36.4351](#) and [38 CFR 36.4352](#))

When a property is located in a condominium or planned unit development, the lender must ensure that any mandatory homeowner association assessment is subordinate to the VA-guaranteed mortgage.

[38 CFR 36.4351]

[38 CFR 36.4352]

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