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

June 28, 2005

LOAN GUARANTY INFORMATION LETTER #26-05-8

TO: ALL LENDERS and FEE APPRAISERS

SUBJ: NEW PROCEDURES FOR PROCESSING REQUESTS FOR VA APPRAISALS ON PROPERTIES WITHOUT A VETERAN PURCHASER UNDER CONTRACT

Purpose:

This letter will provide information on new procedures for processing requests for an appraisal and Notice of Value (NOV) on properties that do not have a veteran under contract to purchase (John Doe cases).

Background:

Currently, VA appraisals for origination cases are only ordered when a veteran applies for a loan. Members of the real estate community have expressed an interest in having appraisals done on properties prior to listing or contract submission. It is believed that this would make it easier for buyers and sellers to decide to make and/or accept offers that provide for VA financing. The VA policy on the guaranty of loans with appraised values less than the sales price is outlined in the Code of Federal Regulation under 38CFR36.4303.

This policy has the effect of negating the "escalation clause" now prevalent in many contracts in our area of jurisdiction. Under the current policy before VA would guaranty a loan on such a case, there would have to be an addendum to the contract that would substitute the VA refund clause for the escalation clause.

What will change:

If the property has been appraised and a valid Notification of Value issued, the veteran may be given a copy of the John Doe NOV prior to making an offer. If the veteran decides to make an offer or accept a counter offer that includes an "escalation clause" after receipt of the NOV, the VA will not insist on the substitution of the escalation clause with the "VA refund clause."

What VA will do:

VA will now accept a request for a John Doe appraisal and authorize a lender with LAPP authority to issue a NOV on the property. We will allow the NOV to be endorsed to a veteran under contract to purchase the property. We will change the lender on the NOV if necessary.

What the requestor must do:

The party wishing to request the appraisal, must contact a LAPP lender willing to process the request. Lenders are not required to process these cases and may not desire to participate.

What the lender must do:

Lenders who are willing to process these cases must gather enough information to order the appraisal, be responsible for the payment of the appraisal fee, and issue the Notice of Value. A copy of the Notice of Value will be provided to the requester. Once the NOV has been issued it can be endorsed to change the name of the purchaser. There will be no charge to the veteran or reimbursement to the requester. When the veteran applies for the loan and requests the endorsement to the NOV, the lender needs to obtain a copy of the contract. If the contract provides for a purchase price or cost to the veteran in excess of the reasonable value on the Notice of Value, the lender must verify that the contract includes an adequate "VA escape clause," or specifically states that the veteran received a copy of the NOV prior to the contract, or obtain a certification from the veteran to that fact. The lender will provide the veteran with a copy of the revised Notice of Value and the appraisal.

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.

JEANE BLEVINS
Acting Loan Guaranty Officer