

Appraisal Requirements

For VA loan guaranty purposes, the “reasonable value” of a property is that figure which represents the amount a reputable and qualified appraiser, unaffected by personal interest, bias, or prejudice, would recommend to a prospective purchaser as a proper price or cost in the light of prevailing conditions. VA considers reasonable value and market value to be synonymous.

Any appraisal that is not based on recognized appraisal practices in order to “accommodate” the sales price is unacceptable and will result in VA disciplinary action. If the VA assigned appraiser relied on significant professional assistance in performing the appraisal or in preparing the appraisal report, the name of that individual and the specific tasks performed must be shown in the “Reconciliation” section of the appraisal report.

Sales Contract to be Provided to the Appraiser

VA requires a copy of the sales contract be provided to the appraiser by the requester of the VA appraisal immediately upon assignment. When the value opinion to be developed is market value, USPAP requires an appraiser to analyze all agreements of sale, options, or listings of the subject property current as of the Effective Date of the appraisal if such information is available to the appraiser in the normal course of business.

VA believes that the appraiser must have access to the information in the sales contract to ensure that the estimate of the value represents a proper value which includes consideration of financing data, sales concessions, or property conditions typically contained in a sales contract.

The requestor of a VA appraisal must provide a copy of the sales contract and all addenda to the appraiser immediately upon assignment, but not later than one business day after the date of assignment. The assigned VA appraiser will analyze the sales contract and consider that analysis in establishing the fair market value of the property and any effect on VA minimum property requirement repairs. Should the requester fail to provide the sales contract to the appraiser the appraiser will hold the assignment and notify VA of the delay.

If the sales contract is amended during the process (prior to the Effective Date of the appraisal), the lender/requester **must** provide the updated contract to the appraiser to ensure the appraiser has the opportunity to consider any changes and their potential impact on value.

If the sales contract is amended subsequent to the Effective Date of the appraisal, but prior to loan closing, the lender must use due diligence in determining whether the amendments(s) could reasonably be thought to affect the estimated value of the property. If so, the lender must forward the amended contract to the VA appraiser for consideration. The appraiser will be responsible for determination of the impact of the amended sales contract and compliance with all provisions of the USPAP in developing and reporting credible assignment results.

Depending on the amount of time and/or the extent of any change to the originally considered sales contract, the circumstances may warrant the appraiser considering such change to constitute a new assignment under USPAP, and an additional fee may be warranted up to the full amount of a new fee. Such determination by the appraiser may result in an additional fee which may be paid by the Veteran. Disputes in regard to any such additional fees should be referred to the VA Regional Loan Center (RLC) of jurisdiction.

General Requirements

Every VA appraisal must:

- Name the lender as the client on the appraisal report form
- Insert the name of the Veteran purchaser in the borrower field of the appraisal report form.
- Be performed within VA timeliness requirements.
- Conform to Uniform Standards of Professional Appraisal Practice (USPAP). Every Va appraisal must meet the USPAP requirements. Lenders and their Staff Appraisal Reviewers are expected to be familiar with applicable USPAP provisions
- Meet the additional requirements that VA considers to be supplemental to USPAP; and
- Be uploaded into Weblgy by the appraiser.

The VA assigned appraiser must personally:

- View the interior and exterior of the subject property (except on “proposed” construction cases) and the exterior of each comparable.
- Select and analyze the comparable sales
- Make the final value estimate
- Sign the appraisal report as the appraiser.

Every VA appraisal report must include the following items:

- A properly completed appraisal report using one of the following forms:
 - Uniform Residential Appraisal Report, Fannie Mae form 1004, if the property is a single family residence, not a manufactured home or a unit in a condominium.
 - Manufactured Home Appraisal Report, Fannie Mae form 1004C, if the property is a single family manufactured home
 - Individual Condominium Unit Appraisal Report, Fannie Mae form 1073, if the property is a condominium unit
 - Small Residential Income Property Appraisal Report, Fannie Mae form 1025, if the property has two to four living units.
- A location map showing the location of the subject and each comparable.
- Building perimeter sketches showing the “footprint” of all improvements including the floor plan layout of the residential spaces. The calculation for the square foot size of the improvements must also be shown either on the sketch or in the “Comments on Cost Approach” section of the URAR.
- Clear illustrative original photographs showing the front, rear view (preferably including a different side view in each photograph), a street scene of the subject property and the front of each comparable sale. The subject and comparable sales must be appropriately identified.
- Interior photos of the subject property which at a minimum show:
 - The kitchen
 - All bathrooms
 - Main living area
 - Examples of physical deterioration, if applicable.
 - Examples of recent updates such as restoration, remodeling, and renovation, if applicable
- Include photographs of any improvement, site feature of view affecting value
- An itemized list of any observed repairs required to be completed, customer preference items to be installed, inspections to be performed, or conditions to be corrected, for the property to meet VA minimum property requirements
- A copy of the appraisal invoice should be included **preceding** the report
- Any additional appraisal or repair related information that may be needed to support the appraiser’s conclusions.

Exceptions to photo requirements are:

<i>If....</i>	<i>Then....</i>
It is a proposed construction case and no improvements are under construction	Only a photograph of the subject site and street scene are required in addition to a front view photograph of each comparable.
The property is in a condominium building that is more than three units high.	No photographs of the comparable sales that are located in the same project as the subject property and are substantially identical to the subject property.
The appraiser documents the inability to take photos of the comparable sales due to lack of access, poor visibility, etc.,	Copies of listing service or advertising pictures are acceptable for the comparable sales if they clearly depict the properties. Copies of listing service or advertising pictures in lieu of photographs are never acceptable for the subject property.

Selection and Analysis of Comparable Sales

Approaches to Value

Sales Comparison Approach:

VA relies exclusively on the sales comparison approach to value except in very unusual circumstances involving inadequate or nonexistent comparable sales or an extremely unique property. The VA value estimate should never exceed what has been indicated through the sales comparison approach. This approach recognizes that a well-informed purchaser will generally pay no more for a property than the price of acquiring a similar property of equal desirability and utility without an undue delay.

Cost Approach:

Since the residential real estate market does not base transaction decisions on a property's reproduction or replacement cost, the cost approach to value may only be used to support the sales comparison approach in the final reconciliation. VA does not require the completion of the cost approach unless it is applicable to the appraisal.

Income Approach:

Development of an income approach for a single family property is not required. If the appraisal involves an income-producing property (more than one living unit), the appraiser will use the Small Residential Income Property Appraisal Report, form 1025 which requires value estimates developed through both the income and the sales comparison approach in the final reconciliation.

General Requirements

The appraiser must select the three best closed comparable sales available and properly adjust the sales price of each comparable sale for the market recognized differences between it and the subject property. The goal is to obtain a VA value estimate that does not exceed the price at which similar properties can be purchased in the current market. The appraiser must adequately explain any reliance on sales that are not truly comparable to the subject. Sales listings, contract offers, and unsettled sales must not be used as comparable sales.

Sales Price Range:

Comparable sales should preferably exhibit a narrow price range. The appraiser must adequately explain a wide range in the sale prices of comparable sales before or after adjustment.

Date and Verification:

A single data source is adequate if it provides quality sales data verified by closed transactions. Sales data provided by a party to the sale or financing of the subject property must be verified by a secondary data source or a party without interest in the transaction.

Sales Dates:

Comparable sales should be recent sales, typically within six (6) months and generally not more than twelve (12) months old. In some markets, sales over six (6) months old may be considered outdated.

Note: The appraiser must adequately explain the use of sales over twelve (12) months old.

Location:

Comparable sales should be located as close to the subject as practical. Their proximity to the subject (such as three blocks north) must be described. Generally, blocks should be used in cities and miles in rural areas to locate properties. The appraiser must adequately explain any reliance on sales located either:

- Further from the subject than similar recent comparable sales readily available in the subject neighborhood; or
- Outside of the subject's market area

Note: in some rural areas, comparable sales may be 5, 10, or 20 miles away from the subject property and still be within the subject's immediate market area.

Value adjustments:

To be in a condition acceptable to VA properties must meet VA's Minimum Property Requirements (MPR). Since MPR repairs identified in the appraisal report must be completed as a condition of the report, value adjustments to the comparable sales are made as if the repairs to the subject have been completed. Generally good comparable sales require minimal adjustment for individual feature differences and a minimal total net adjustment. The appraiser must adequately explain large adjustments. Adjustments based on some factor other than market reaction, such as builder costs for materials, project development, etc., are not general acceptable.

Other Market Analysis Considerations

The following market analysis considerations are provided as a reminder of VA appraisal expectations and as an aid in development of the appraisal report. Reporting each consideration, separate from the requirements of the appraisal report form is optional, unless time adjustments are used in the report.

Sales Financing Concessions:

The appraiser should report:

- In the "Neighborhood" section of the Uniform Residential Appraisal Report (URAR) or on an addendum, the prevalence of sales or financing concessions (for example, interest rate buy-downs, inclusion of non-realty items in the transaction, seller payment of any buyer closing costs, etc.); and
- If any comparable sale involved concessions, the effect of the concessions on the sales price of the comparable should be noted. 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, not on the dollar-for-dollar cost of the concessions(s) to the seller; and
 - In "proposed" construction cases, closed sales by the same builder, sales in competitive subdivisions and re-sales of similar existing properties

Market Conditions Addendum:

VA now requires appraisers to complete Fannie Mae Form 1004MC, Market Conditions Addendum. This form requires appraisers to document an overview of the neighborhood market conditions and trends as well as housing supply and demand. VA requires the appraiser to include this form in all VA appraisal reports.

Sales Listings and Contract offers:

In every case the appraiser should:

- Analyze sales listings, contract offers, and unsettled sales to determine if market conditions changed between the date each comparable sold and the date of the subject property appraisal. This is especially important in markets with rapidly increasing or decreasing values. If the subject property is in a new subdivision, the analysis should include the builder's closed sales, sales in competitive subdivisions and sales of similar existing properties.
- Certify, either in the "Neighborhood" section of the URAR or on an addendum, "I have considered relevant competitive listings/contract offerings in performing this appraisal and any trend indicated by that date is supported by the listing/offering information included in this report"

Minimum Property Requirement Repairs – Existing Construction

The appraiser must view both the interior and exterior of the subject property to:

- Determine its overall condition; and
- Recommend any readily observable repairs necessary to make it meet VA Minimum Property Requirements (MPRs)

On the Uniform Residential Appraisal Report (URAR), the appraiser must select the appropriate box in the "Reconciliation" section following, "This appraisal is made":

- "As is", if the property meets MPRs with no repairs required; or
- "Subject to the following repairs" if repairs are required for the property to meet MPRs. The appraiser must also provide an itemized list of observed repairs, customer preference items to be installed on new construction cases, or other action necessary to ensure the property meets MPRs.

When there is an indication of a potential environment problem (abandoned underground fuel storage tank, for example), the appraisal report must contain a requirement for correction of the problem in accordance with any local, state or federal requirement.

Appraisers must not recommend electrical, plumbing, heating, roofing or other inspections only as a measure of liability protection. Improvements or site conditions that do not appear to meet MPRs should, in most instances, be required to be corrected, repaired or replaced, rather than inspected. An inspection should be recommended only if there is an indication of a complex problem requiring a professional opinion, such as pests, site drainage, structural defects, safety concerns, code violations, etc.

Note: Appraisers are required to view, but not enter, any accessible crawl space and/or attic areas of the home and report any significant defective conditions observed.

Remaining Economic Life of Improvements

Remaining economic life is the estimated period of time until the improvements lose their ability to serve their intended purpose as a home. For VA Loan Guaranty purposes the remaining economic life of the security must be at least as long as the loan repayment term, typically 30 years.

A remaining economic life estimate of less than 30 years must be adequately explained and not arbitrarily established. This is to avoid depriving Veterans of the home of their choice in an area where they can afford to live. In estimating remaining economic life, the appraiser must consider:

- The relationship between the property and the economic stability of the block, neighborhood and community

- Comparisons with homes in the same or similar areas
- The need for a home of the particular type being appraised
- The architectural design, style, and utility from a functional point of view
- The workmanship and durability of the construction, its physical condition, and probable cost of maintenance and/or repair
- The extent to which other homes in the area are kept in repair; and
- In areas where rehabilitation and code enforcement are operating or under consideration, their expected results in improving the neighborhood for residential use.

If the estimate of remaining economic life is less than 30 years, the appraiser must provide a supporting explanation, based on either known economic factors or observed physical condition. If the estimate of remaining economic life is 30 years or more, the appraiser must state the estimate at its maximum, for example 40 years.

For condominium units the estimate of remaining economic life must be reported in the “Reconciliation” section of Fannie Mae Form 1073, Individual Condominium Unit Appraisal Report.

Other Property Types

Manufactured Home:

The appraiser must inspect the interior of the manufactured home unless it is both new and has not been delivered to the dealer or to the site. In those cases where the appraiser is unable to access and/or inspect the new manufactured home, the appraiser must obtain the following documents and include them in the appraisal report:

- Plans, design or floor plans showing room layout and exterior dimensions for the manufactured home and the elevation plans
- Specification, information on all standard items of inclusion such as flooring, heating, plumbing, electrical equipment and appliances
- Supplemental information on any selected options or upgrades included in the subject sale; and
- Foundation plans

If other manufactured homes on permanent foundations are not available for use as comparable sales, the appraiser must state that fact and show in the market analysis grid that the sales prices of the best comparable conventional (stick built) home sales available were properly adjusted.

Manufactured Home Appraisal Report:

The Manufactured Home Appraisal Report must be used for all VA appraisals of manufactured homes. The report must be acceptably completed, including entries for all relevant questions based on personal observation. In addition, VA appraisers must identify and require correction of deficiencies or conditions necessary to ensure the subject property meets applicable VA minimum property requirements.

Appraisers are expected to be familiar with state and local code laws or regulations in their locality governing manufactured homes (such as missing Department of Housing and Urban Development labels, alterations, modification, additions, component replacements), and to make appropriate requirements for compliance.

The cost approach is not required for VA purposes but may be completed to supplement the indicated value in the sales comparison approach. Since VA relies on the sales comparison approach to value, the VA value estimate (market value) should never exceed that which is indicated in the sales comparison approach without detailed explanation.

Planned Unit Developments (PUDs) and Condos

The appraisal report must:

- Show the amount of the current monthly assessment
- For condominiums, indicate which utilities are/are not included
- Comment on the adequacy of the monthly assessment based upon the appraiser's opinion of the adequacy of the project's budget and a comparison to competitive projects. If the assessment is considered inadequate, a "fair" or "market" assessment must be recommended.
- Report any known pending litigation involving the subject project or its homeowners' association.

Solar Energy Systems:

For VA purposes the value of a solar energy system must be based on real estate market data. Solar systems for domestic water heating and/or space heating must:

- Meet HUD standards; and
- Be backed up 100% with a conventional thermal energy subsystem or other backup system which will provide the same degree of reliability and performance as a conventional system.

Local Housing/Planning Authority Code Enforcement:

If the property is existing construction which is located in an area where specific local housing/planning authority code requirements are enforced in conjunction with the sale of homes, the appraiser must take this into consideration.

Farm Residences:

Although VA does not make farm or other business loans, the law allows Veterans to use their loan guaranty benefit to purchase a farm on which there is a farm residence. VA does not set a limit on the number of acres which the property may have (investors may have overlays)

The appraisal of properties with acreage should not present difficulties if a sufficient number of similar properties in the area, which may include improvements not typically considered residential such as barns, sheds, corrals, stables, pastures, etc., were recently sold primarily for residential use. For VA purposes the valuation must not include livestock, crops, or farm equipment and supplies. In any case, individual improvements not typically considered residential will be valued at their fair market value on the basis of the use of the property for residential purposes only.

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. The appraiser must:

- Check FEMA flood maps 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 a VA appraisal because:
 - It is proposed or new construction and there is an indication that elevation of the lowest floor is below the base flood level (100-year flood level); 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 (MPRs) 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.

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

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, Florida Keys, Puerto Rico, Virgin Islands and the Atlantic coast. Appraisers who work in CBRS areas must obtain the appropriate maps from the U.S. Fish and Wildlife Service. Prohibited areas on the maps are those inside the solid heavy black lines.

Properties Near Airports:

The appraisal report must identify any airport noise zone or safety-related zone in which the property is located.

Noise Zones are defined in decibels (Db) in the table below:

Noise Zone	CNR (Composite Noise Rating)	NEF (Noise Exposure Forecast)	DNL (Day/Night Average Sound Level)
1	Under 100 db	Under 30 db	Under 65 db
2	110-115 db	30-40 db	65-75 db
3	Over 115 db	Over 40 db	Over 75 db

- Clear zones are areas of highest accident risk located immediately beyond the ends of a runway
- Accident potential zones are beyond the clear zones but still have significant potential for accidents. Only military airports identify them.
- No existing property will be rejected because of airport influence if that property is already the security for an outstanding VA loan.

Depending on the type of construction and the airport noise or safety-related zone involved, the following requirements (refer to the table below) also apply with regard to the appraisal and/or VA Notice of Value (NOV)

Type of Construction	Noise Zone One	Noise Zone Two	Noise Zone Three	Clear Zone	Accident Potential Zone
Proposed	A	A, B, C, D	E	F	A, C, H, I
New/Existing	A	A, D	A, D	A, C, G	A, C, I

A	The fee appraiser's market data analysis must include a consideration of the effect on value, if any, of the property being located near an airport
B	Sound attenuation features must be built into the dwelling to bring the interior DNL of the living unit to t45 decibels or less
C	Available comparable sales must indicate market acceptance of the subdivision in which the property is located
D	The Veteran must sign a statement which indicates his/her awareness that the property being purchased is located in an area near an airport, and that aircraft noise may affect livability, value and marketability of the property.
E	Not acceptable as the security for a VA loan unless the project was accepted by VA before noise zone three contours were changes to include it. In that situation, the requirements for proposed construction in noise zone tow must be met.
F	Not acceptable as security for a VA Loan
G	The Veteran must sign a statement which indicates his/her awareness that the property being purchased is located near the end of an airport runway, and that this may have an affect upon livability, safety, value, and marketability of the property.
H	The project in which the properties are located must be consistent with the recommendation found in the airport's Air Installation Compatible Use Zone (AICUZ) report
I	The Veteran must sign a statement which indicates his/her awareness that the property being purchased is located in an accident potential zone and that this may have an affect upon livability, safety, value and marketability of the property.

Repair Inspection Procedures

When repairs have been completed and are ready for inspection, lenders notify the appraiser and provide a copy of the Notice of Value if one is not available to the appraiser in WebLGY. VA fee appraisers may use Fannie Mae Form 1004D, Part B, Certification of Completion, or their letterhead to certify satisfactory completion of the required repairs or to report their repair inspection findings if repairs were not acceptably completed. Photos of completed repairs are expected to be included with the appraiser's inspection or certification.

Note: Fannie Mae Form 1004D, Part A, Summary Appraisal Update Report is **not** acceptable for VA use.

The VA fee appraiser identified on the Notice of Value is authorized to inspect the repairs and prepare a report, including photos, on his or her letterhead or on Form 1004D. If the VA assigned fee appraiser is unavailable, lenders may contact VA Regional Loan Center of jurisdiction to request another fee appraiser be assigned to do the repair inspection.

The inspection report or certification must re-list the items on the Notice of Value to be repaired or installed in the case of customer preference items and which were inspected by the appraiser. The inspection report or certification must certify that quality materials were used and the identified repair or installation items were completed in a workmanlike manner.

Any required repairs not addressed or not completed in a workmanlike manner should be identified and photos of items of non-compliance must be included with the inspection report or certification. The inspection report or certification is to be completed, signed and uploaded to WebLGY.